

WARNING DEMOCRACY

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In "Warning Democracy" Major Douglas speaks colloquially of political events and prospects in the light of his famous Social Credit proposals. The titles of his nineteen chapters are indicative of the enormous range of topics covered. For the reader who has already concluded that something must be rotten in the state where poverty stalks the land in spite of a hundred and fifty years of invention to increase the output of goods, Major Douglas's lucid and non-technical essays constitute an initiation into fundamental causes and remedies.

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PREFACE

IN reprinting a series of addresses and articles which have been delivered or have appeared between the years 1920-31, it is hoped that two objectives may be, to some extent, attained. The first of these is to put in colloquial form much of the matter of other books which it has seemed necessary to inflict upon a long-suffering public.

The second is to suggest that as the test of science is prophecy, the correspondence between the course of events as they have developed, and are developing, and the arguments embodied in these addresses, affords solid ground for optimism. Difficult as the present times may be, and worse as they may become, we know that the monetary system is the main cause of our discontents, and we are for that reason so much the nearer to a cure.

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WARNING DEMOCRACY

I

SOME DIFFICULTIES FACING MONETARY REFORM

Notes for an address delivered to the Anthroposophical Society.

It might appear at first sight that there is little or nothing in common between what is in one sense a branch of economics and a society such as yours. But such an opinion would, I think, be mistaken. Money and the money system now occupy the place of religion.

It is not my intention to inflict upon you to any considerable extent any views upon the existing financial system, or the modifications which, in my opinion, are urgently required in it, as, apart from other reasons, there is a fairly extensive literature on the subject, and it is one which lends itself better, in the first place, to assimilation through the printed word than through the medium of an address. My object, rather, is to indicate the reaction which the presentation of those ideas has evoked in various cases, and to consider, and to ask you to consider, the apparent reasons which have hindered the more rapid translation of those ideas into the stage of practical action.

In order, however, to do this it is necessary, I think, to give you some short epitome of the subject in order that you may judge for yourselves what may be the motives and psychology behind the reactions to which I have referred.

Very briefly, then, it is our contention that the industrial, international, and, to a large extent, the social difficulties with which the world is plagued at the present time do not arise either, on the one hand, from anything in the nature of physical scarcity, that is to say, lack of either raw or finished materials, goods, or services, nor, on the other hand, are they the result of the administrative relations between employers and employed, or any lack of what is commonly called goodwill in any of the parties concerned in the actual processes of industry.

Similarly, in a wider field, we say that the danger of international conflict, which is insistent and growing, also does not arise from any desire on the part of the populations of the world to fight each other. And the constant and somewhat wearisome demand for goodwill and understanding between nations belongs to the same order of sentimentality as those somewhat similar exhortations addressed to those threatened with industrial strife. We point, on the one hand, to the half-employed factories, whose one constant preoccupation is to obtain "orders"; to the farms going out of cultivation because they do not "pay"; to the shops and stores full of goods which in many cases they cannot sell, to the millions of unemployed and half employed working people asking to be allowed to make more goods, and, on the other hand, to the millions of people, frequently the same, whose one idea of the better life is that they should be able to obtain more goods, food, clothes, housing and services, which as producers they are not allowed to create. We say that it should not require intelligence above the ordinary to appreciate that there must be something which stands between the mechanism of production, with its farms, factories, tools, materials and men, on the one hand, and these millions of people whose only desire is to obtain the products which the productive organisation could give them if it were allowed. Examining the organisation by which goods pass from the producer to the consumer, we find that it is the money system, and we naturally suspect the money system as being at fault. In other words, it is not goods which are scarce, it is money, or, more accurately, purchasing power, which is scarce.

Now, if it were in the nature of things that in some way the quantity of money in the world was fixed by the laws of nature, our case would be desperate, but we find by technical investigation that it is not so fixed, that the amount of money in the world is almost entirely dependent upon the action of those institutions which we call banks, that, in fact, the banking system can, and does, control the prosperity of every country in the world, and that the banking system is a man-made system controlled by men and can be altered by men.

The method by which this position can be rectified, and with it, at any rate in our opinion, a very large number of the troubles from which humanity at the present time suffers, is technical, and as I previously said, I do not propose to inflict it upon you. I am going to ask you tonight to accept the statement that I have just made as correct, and as being proved both mathematically and by the inductive method of comparative statistics. Taking this for granted, then, you would naturally assume that the great majority of people would regard such a matter as being not only of the greatest possible interest, but as in the nature of a very happy discovery.

It is quite possible that my own method of communicating information may be to some extent at fault, although I do not think this is the whole explanation, because it is a common experience. But, speaking generally, the information to which I have referred is not received with the enthusiasm which at first sight you would expect.

Now, one of the first conceptions which is driven home to a consistent critic of the money system is the curious and widely spread desire which seems to exist to attribute our troubles to anything *but* the money system. From one quarter you will be told that it is the incorrigible laziness of what is called "labour" which is at fault. On the other hand, the rapacious employer is the difficulty, or lack of education, or too much education, or obsolete tools, or too many tools, or the climate, or spots on the sun. On the whole, however, there is a strong tendency to suggest that it is the depravity of human nature that is at fault, and to epitomise the matter ... "If we all went to church our incomes would be larger." In a smaller number of cases, but still quite numerous, one's criticism of the existing money system, and the suggestion that it could be improved, provokes the most furious resentment, akin to the resentment roused by religious heresy in the Middle Ages.

I have never been able to explain to my own satisfaction this resentment, although no doubt it has some connection with the prevalent idea that the money system is so simple, obvious, and natural, that it is an insult to one's intelligence to assume that anything very serious could be the matter with it, which would not be patent to the man in the street. While the broad functions of the money system are simple enough, the mechanism of it is, of course, very far from simple, and so far from being "natural," it is highly artificial. Since the institution of a modified financial system of a suitable nature would rapidly increase the (what is called) material wealth of everyone without detracting from the wealth of anyone, it would be imagined that when once agreement had been obtained as to the feasibility of such a readjustment opposition would cease. But this is far from being the case. The more important the individual with whom one is dealing in these matters, and the more able such a person may be to assist in the end desired, the more likely one is to find a very definite dissent, not as to the competency of the mechanism, *but as to the desirability of the end. It is a curious feature of the average human being that he deems himself singular in the ability to make a right and proper use of wealth.* "It is a good and desirable thing for me to have ten thousand pounds a year. I am a sober and right-minded person. But it would be absolutely disastrous for my neighbour over the way to have a comfortable income. He would not know what to do with it, and it would only hasten his career of drunkenness and depravity."

Shortly after the war I had several conversations with the late Lord Leverhulme on these matters, and he was quite clear that only the fear of poverty kept the vast majority of people at work, and he took it for granted that they ought to be kept at work. Two or three sentences after disposing of the question in the foregoing manner, he explained that he worked much harder than any of his employees. That, of course, was because he was different.

Analogous to this, and no doubt closely connected with it, is the rooted objection existing in the minds of most people that anyone but themselves should get something for nothing. I have heard innumerable cases of furious resentment against the grant of what is so improperly called "the dole" (which is, of course, a form of contributory unemployment insurance, to which the workman himself contributes) and these denunciations, proceeding from normally kind-hearted persons of both sexes, are usually accompanied by remarks on the demoralising effect of money received without working. If you enquire, as mildly as possible, of such people, if by chance they receive any dividends which enable them to exist without working, you will, of course, be very unpopular, and you will be told that that is different, and if you suggest that a generalisation of the dividend system if it could be obtained (and it can) would be desirable, you will be called "Socialistic," a Parliamentary epithet for dangerous.

An extreme variant of the same idea is that there is some virtue in poverty.

Speaking to Labour and Socialist audiences I have been struck with the hypnotism exercised by such phrases as "Public Ownership."

It never seems to penetrate the minds of the large numbers of people who clamour for Public Ownership of this, that, or the other, that they already have public ownership of such things as the Army, Navy, Post Office and many other services. I should like to see one of the public owners step upon a battleship of the Royal Navy with a view to removing his bit of property or making some use of it. The real fact is that the word "ownership" is quite meaningless when it is applied to the relations between any undertaking and a large number of what the law calls "tenants-in-common." It is quite impossible for a hundred people to own a piece of land, although there is a legal fiction to the effect that they can. Either they have to let it, and divide the rents, or each one of them can walk about on it, in which case there is no rent and nothing to divide. Even a Public Park is subject to regulations which the individuals using it are generally powerless to alter as individuals.

It is a fact inherent in the nature of the case that ownership must vest in an individual, and any attempt to get away from this law of nature results as a practical consequence in the appointment of an administrator whose power increases as the number of his appointers increases. This is, of course, the idea which is contained in the continuous extension of the voting franchise, and a very Machiavellian policy it is, resulting as it does in the intelligent voter being completely disfranchised.

Another very curious and almost universal form of resistance which is met with by the credit reformers is the general determination to believe that any proposal which offers a radical amelioration in the economic situation must be a fairy tale. Inspired by the bankers and orthodox economists, political spokesmen have been at one in asserting that there is no short cut out of our difficulties. That is what they are paid to say, and it is perhaps not surprising. But what is surprising is the unanimity with which most people accept the statement. We all know Mark Twain's story of the man who was imprisoned for twenty years and then walked out having just discovered that the door had never been locked, and some of us think it is funny. Personally I do not think it funny. I consider it a somewhat boring statement of fact. The world at large is in prison, and shows many symptoms of dying in prison, and there is nothing whatever to prevent it from walking out.

No doubt some of you may remember a book by Mr. Tawney, a well-known Socialist, and Fellow of an Oxford College, called *The Sickness of an Acquisitive Society*. I must confess that I never read the book itself, although I read several reviews of it, but I never saw the title without wanting to write another book under some title such as "The sickness of people who write about the sickness of an Acquisitive Society." It has always been quite incomprehensible to me why people should be expected, when they don't want to, to work unless they get something for working. Please do not misunderstand me. There is a very great satisfaction to be derived from creative work, quite irrespective of the result. But that is not the primary objective of work, used in the ordinary sense of the word. That primary objective is to obtain something which had not existed before the work was done, and the fundamental defect of the existing financial system is that it does not give people enough return for the work that they do, or conversely, they do not get in confident security a standard of life such as they have a right to expect without devoting far too much time and energy to its acquisition. It is my own personal opinion that the undue acquisitiveness of a small section of society very largely arises out of fear, and that by far the best way to reduce it to its normal proportion would be to remove the fear and insecurity in the existing state of affairs by making plain what is undoubtedly the truth, that the modern production system can meet every possible need of society without any stress or strain, if only it is freed from the fetters imposed upon it by the existing financial system.

I do not claim in the foregoing remarks to have more than sketched the outlines of the curious perversity which seems to exist in regard to our social troubles, but I hope that I have given you sufficient indication that the nature of that "change of heart," of which we hear so much, is not so simple as many people would have us believe. Those very persons who are loudest in their demand for a human spirit in industry are very often the most determined that the results which they pretend to desire shall not be attained by methods which would remove the necessity for the philanthropist. There is a great deal of truth in the saying that

“People will do anything for the poor, except make them rich.” It is my own opinion that until it is clearly recognised that the only sane objective of an industrial and productive system is to deliver goods as, when, and where desired with the minimum of trouble to anyone, and that the moment you begin to mix this clear-cut objective up with moral considerations, so called, including a strong dash of Mosaic law, you produce, maintain, and increase friction, inefficiency, and mental and physical distress, and that if you persist, as we are persisting, in this confusion of objective, you will eventually arrive at a situation involving the serious elements of breakdown

ENGINEERING, MONEY AND PRICES

Extracts from a paper read at the Institution of Mechanical Engineers on April 22nd, 1927

THE subject cannot be covered in the space of the time available this evening with any approach to thoroughness, and I should like therefore, to begin by an apology and a warning. The apology refers to the necessarily wide, and therefore somewhat thin, treatment of the subject, and the warning is in regard to the danger of detaching any one aspect of the subject from the others. I propose to deal briefly with three points, each of which may serve as points of departure for further discussion.

1. The application of the word “engineering” to this subject.
2. The general nature of money.
3. An outline of the nature of prices.

I. Engineering

In regard to the first, the charter of the Institute of Civil Engineers defines engineering as “the application of the forces of nature to the uses of man.” It is quite probable that what are commonly known as physical forces were in the mind of Telford when he framed this admirable definition, but I suppose that, on consideration, there is no one here tonight who would not recognise that such a restriction is unwarranted. It is not sensible to detach an engineering project from the purpose to be attained by it. The force of gravity is not half such a serious obstacle to the development of, let us say, the Severn Barrage scheme, as a lack of finance, and a strike on the railway system of England is much more effective in paralysing transportation than an inferior valve gear. We are constantly being told of the necessity of goodwill and tact in industry. While these are obviously desirable, it seems to me that arrangements which require so much tact and goodwill are suspect, just as would be a machine which required too much oil, and that it is our business to look into those arrangements, even if it were only to enable us to conform to them intelligently.

A curious point in connection with this matter is that the truth of what I have just been saying is fully recognised within the limitations imposed by the factory walls. No one would contend that it is outside the province of the Works Manager to make such arrangements as would tend to keep his men at work, but it is well enough understood both by the Works Manager and by the Trades Union agitator that the one difficulty which never remains composed for any length of time is the wages difficulty. On the other hand, during the past few years, we have witnessed the reconstruction of many of the largest engineering concerns in this country—a reconstruction the necessity for which has almost uniformly been attributed to bad management, but which can, in fact, simply be attributed to the *inability to sell at prices which the market can afford to pay*. That situation was the direct result of the policy of the Bank of England acting within the existing financial system, and management had very little to do with it.

These reasons alone would be sufficient to justify the inclusion of the financial system as an integral part of the production and distribution system. There are, however, many more reasons. The influence of finance upon design is predominant. The horse-power tax on motor cars has a great deal to do with the position, or lack of position, of the British car in the world’s markets. Those familiar with design during the war, which is realistic, will remember how questions of performance, ease of production and so forth, outweighed questions of money. Peace is not realistic at the present time, and financial questions are apt to outweigh all others. It is often said that we British allow other nations to develop everything that we invent. The reason is simple, and is financial.

II. The General Nature of Money

The best definition of money with which I am acquainted is that of Professor Walker, which is that “money is any medium which has reached such a degree of acceptability that, no matter what it is made of, and no matter why people want it, no one will refuse it in exchange for his product.” You will see that this

definition rules out any physical properties in respect of money. The properties that are left, therefore, are not physical. They can be summed up in the word "credit," which is, of course, derived from "credere," to believe. The essential quality of money, therefore, is that a man shall believe that he can get what he wants by the aid of it. This is absolutely the only quality that it is required to possess, although, of course, certain minor attributes, such as convenience, have a bearing on the decision as to what particular description of money, if it fulfils the major requirements, is likely to come into the most general use. The cheque, no doubt, owes its popularity to this latter attribute.

Looked at from this point of view, money is simply a ticket. A railway ticket is, in the truest sense, a limited form of money and differs only from any other sort of money in that the owner of it only believes, and is only justified in believing, that he will receive in return for it a particular form of service, i.e., transportation.

Now, if the whole of the population of Great Britain were to besiege the gates of the great London termini, under the urge of some necessity, such as, let us say, the invasion of London, to remove themselves to Scotland, and were to be told that there were plenty of trains, plenty of tractive power, and that, in fact, the whole of the railway system was physically capable of meeting their necessity, but that unfortunately only 15 percent of the tickets necessary to entitle them to seats were available and that the Traffic Department, as a matter of policy, did not propose to print any more, it would probably be agreed that the Traffic Department would hear something to its disadvantage.

The extraordinary feature of the present day is that, when people are told that the workshops of this country are clamouring for orders, that the shops and department stores are full of goods, that a large proportion of the population is, at one and the same time, asking to be allowed to make more goods and services, while complaining that it cannot get more than a bare minimum of those goods and services that are available, because it has not got the tickets to hand over in exchange for them, the situation is regarded as being in the nature of an act of God, and impressive gentlemen deliver homilies to us on the inexorable nature of economic law. In other words, the statement that a thing cannot be done because there is no money with which to do it is accepted as a good and final reply to a demand for action.

III. An outline of the nature of prices

Some examination into the mechanism, therefore, by which these tickets that we refer to as money are issued, and the conditions governing the control of their issue, is an important part of this subject. In the first place, we have a number of tickets described as "legal tender," which are comprised under the description of Bank of England notes, Treasury notes, gold, silver, and copper coin. In round numbers, in this country these amount to about 380 millions, and bear about the same relation to the total volume of tickets as do teetotallers in America to Prohibition. In figures, it is about 10 percent. The other 90 percent of the ticket system with which we are dealing is represented by bankers' credit, that is to say, by payment by cheque. Now, every effort is made to convey the impression that a cheque upon a bank is an order to the bank to pay out money which was paid in, either by the drawer or by someone else. This idea is, of course, fostered by the fact that, so far as *personal* banking accounts are concerned (as distinct from commercial banking accounts) it is roughly a true statement, but it must be remembered that very few personal banking accounts bear any considerable ratio to the so-called wealth of the persons to whom they refer. Very few people keep large personal bank balances. Nevertheless, no transaction as between a buyer and a seller can take place without the use of money in some form or another. To see where this money comes from, it is necessary to examine the technique of Bank Loans.

The railway ticket, described above as a limited form of money, has, however, in addition to being only a demand for transportation, a rigid relation to a certain kind of transportation: that is to say, one first-class ticket will obtain one first-class seat, other things being equal, but £1 sterling in 1914 would obtain probably more than twice as much of the average articles that you use as the same £1 sterling in 1927. To begin with, you buy in 1927 to the extent of at least 20 percent of your income something that you do not want, that is to say, taxes. It has, therefore, to be recognised as fundamental that the amount of money available at any one time only derives importance in relation to the price of goods. In other words, a money system derives its features not either from money alone or prices alone, but from the ratio between the two of them. If this ratio

of money to goods is such that there is more money than goods, goods will be important and money will be unimportant. If the ratio is such that there are always more goods than money, money will be important and goods will be unimportant. The plain issue before the world at the present time is which is more important, money or goods? The facts of the situation are that there are clearly more goods than there is money with which to buy. The reason for this situation is complex, but one of the fundamentals, without attention to which the situation cannot be rectified, is as follows. When a manufacturing concern pays out wages and salaries, its costing department enters this payment in the costs of production. Let us imagine that these wages and salaries are always paid in Treasury Notes. These Treasury Notes go back to their source after a very short time, through the agency of prices paid to retail distributors, and are paid out again. *Each time* that they are paid out, they pass through the cost accounts and, consequently, *each time* appear as a component of prices. There is nothing in this circulation of the Treasury Notes which increases the amount of money in the world, but each cycle represents the creation of a batch of *prices*. To put the matter shortly, *when you make goods you make prices* but you do *not* make money. As a result of this divergence, total prices produced over a given period of time are greatly in excess of total money distributed over the same period of time. In consequence, the ratio of money to prices is considerably less than unity, and there is a constant struggle on the part of the industrial system to obtain purchasing power, either from export markets (which struggle is the prime incentive to war) or by the manufacture of so-called capital goods, the money distributed in respect of which temporarily assists in the payment for consumable goods.

The problem set for, I believe, the engineer to solve, therefore, may be stated thus. He has to obtain a clear statement as to what the production system is aiming at. Such a statement is certainly not available at the moment. If the aim is maximum production, he must stipulate for the provision of buying power to take away the production as fast as it is turned out. If it is a given standard of living with a consequent steady increase in leisure, he must specify for the provision of buying power which is not derived from employment, because such an objective postulates a constant decrease in the amount of labour required in the industry. What he cannot be expected to do, in my opinion, is to combine the *fundamentally incompatible objectives of labour-saving and the provision of unlimited employment*.

Having attained an objective, he ought to be in a position to state the conditions under which he can achieve it. These conditions, on the one hand, have to do with the physical capacity for output of his plant, but they have equally to do with the number of demand tickets, or money, which his output brings, or ought to bring, into existence. If this latter aspect is not satisfactorily adjusted, his programme of production must inevitably break down.

III

THE ONLY REAL SOCIALISM

Address to the London Socialist Forum at Caxton Hall, October 22nd, 1930

“SOCIALISM” is a word which is commonly used in these days, and, like many other things, is more freely talked about than it is understood, even by those who call themselves Socialists. Before proceeding to a slight sketch of my own views on the general situation and such suggestions as I can make for its improvement, I think it would be well worth your attention to consider the various meanings that can be attached to the word “Socialism.”

I suppose that its literal meaning is “that which appertains to society.” It is quite obvious that this meaning is so wide that it embraces every human activity. But the professed Socialist would probably not accept so wide a definition and would, at any rate until a few years ago, probably have defined “Socialism” as a system of society in which the State was supreme and all individuals were equal, but subject to a common will expressed by the State. Without in any way presuming to criticise the many high-minded leaders which the Socialist movement has evolved, I think it will be admitted first of all that in using the word “society” they had a strong tendency to regard the human individual as being for all ordinary purposes that fiction of imagination called the “economic man,” and, secondly, that in the nature of things, being unfamiliar with the technique with which the economic world is, as a matter of fact, carried on, they made the grave and even fatal error of confusing economic *policy* with economic *administration*, and they assumed, therefore, that some process of democratisation of administration would result in removing the many inequalities and injustices which they very properly resented.

Now, curiously enough, the mechanism which was logically enough evolved from these incorrect premises was exactly the mechanism most calculated to produce an accentuation of the discontents it was intended to remove, and was, in fact, closely allied to the form of mechanism which the alleged arch-enemy of Socialism, Capitalism, is evolving, or has, in fact, evolved, for the express purpose of still further fettering the individual in the toils of the economic system. With the exception of the fact that a higher standard of technical ability has been applied to their organisation, the large Government Departments, such as the Post Office, the grouped railway companies, or the huge industrial organisations such as, for instance, Imperial Chemical Industries, are indistinguishable from the ideals of State Socialism, at any rate, in its more finished stage, and it is significant that Fascism in Italy, which was the capitalists’ reply to Communism, is practically indistinguishable to the unprejudiced observer from the so-called Bolshevism of Russia, which is at present our only avowedly socialistic commonwealth.

It is, therefore, I think, important to endeavour to isolate the nature of the genuine urge at the root of the Socialist movement, in order to find, if possible, a mechanism which is compatible with its attainment.

This is not by any means so easy a matter as it might seem, partly because men and women have an unfortunate habit of clamouring for things by names that they do not understand. We have, of course, the simplest possible instance of this at the present time when millions of unfortunate people are asking for employment. Anyone who will devote a minute’s serious reflection to the matter will realise that the greater proportion of these unemployed millions could employ their own time to their own satisfaction if they were supplied with the means, or to put it shortly, the money with which to buy food, clothes, housing, and the available luxuries of civilisation. People clamour for equality, although not so much as they used to do, whereas the very last thing the average individual really desires is equality. He is convinced, and in my opinion, properly convinced, that he is quite different to everyone else, and the modern demand to realise one’s real personality is far nearer the truth than the clamour for equality of the beginning of the last century.

Many people complain bitterly of the injustice of the world. I am afraid that the last dispensation which we should any of us ask for, if we really understood what it meant, would be justice, and for my own part I am inclined to think that a large proportion of the misery of the world is due to the arrogant claim of society to dispense something which it calls “justice.” One of the most illuminating lines ever penned, by that extraordinary genius, the poet Blake, was that “one law for the lion and the lamb is oppression.”

Now if you have followed me so far you will, I think, on consideration, agree with me that the last thing that anyone really desires is the imposition upon us either by the State, big business, religion, or any other of the agencies which have been active in the matter, of a rigid, uniform ideal. The only thing that we agree in wanting is that we want what we want, when we want it, and not because our next door neighbour wants it at the same or some other time. So that, so far from the realisation of some machine-made Utopia which would embrace us all, I think what we all as individuals desire is a state of affairs which would enable us to use the benefits conferred upon us by science and education for the furtherance of our own individual ideals and desires, which must be just as different, in the nature of things, as our personalities are different, and must become increasingly different as our personalities become further individualised.

The Social Credit proposals at any rate start from this point of view, and in one sense they may be considered as a complete inversion of either State Socialism, Fascism, or Sovietism. So far from desiring to impose some abstract ideal called the "common will" upon the individual, their proposals have for their objective the employment of the common heritage (a phrase which I will define shortly) for the furtherance of the individual objective, whatever that may be, and without defining it.

In order to make this a little clearer I shall be obliged to devote a few moments to a consideration, first of the nature of property and secondly of the nature of what is called "Credit."

In what sense can a man own a factory? It is quite obvious that he cannot himself either operate it, eat it, live in it, or dress in it in any comprehensive sense. Under existing circumstances he can administer it, but administration is clearly not the monopoly of ownership, since probably more than 99 percent of the factories, farms, and other property in the world are administered by persons who do not own them. Not to take up too much of your time, the ownership of a factory may be said to consist in taking the profits, if any, of it, in the power of appointment of its administration, and in the power of divesting oneself of the ownership by sale or otherwise. Now a little consideration will, I am sure, convince you that the majority of people only desire ownership of any such thing as a factory for one reason, and that is the profits which may be obtained from it. These profits take the form of money, and money is the financial embodiment of something which we call "Credit." What is this "Credit" about which we hear so much?

In the first place it is necessary carefully to distinguish between real credit and financial credit. Real credit is a well-founded, that is to say, correct belief or estimate of the capacity of a person or community to materialise its desires. It is, as one might say, a blue-print of a state of affairs which the community can achieve, but has not yet achieved. It is the same thing as that sort of faith which was defined as "the substance of things hoped for, the evidence of things not seen," and fundamentally it takes its rise out of that marvellous faculty of human nature which consists of first imagining a state of affairs and then successfully reproducing the thing imagined in the everyday world. That is real credit. Note that it is *not* belief *only*, it is well-founded belief. Financial credit is a sort of reflection of this real credit in figures, and might be defined as a correct estimate of a person's or a community's ability to deliver money. Money is an effective demand for goods and services, and most of us believe, and probably correctly believe, that we cannot further our desires without command over a certain amount of money. *The Social Credit proposals therefore may be stated somewhat in this manner. They are not concerned with either the nature or the result of an individual's ideals; their objective is to help man to achieve them.* As a matter of observation it is clear that on the material plane the possession of money is, as the world is constituted, an essential to the realisation of almost any objective. The problem therefore is to provide the greatest number of people with the greatest amount of money that they can use effectively, bearing in mind the limitations inherent in the nature of ownership and at the same time to make sure that in doing so we do not destroy the properties which at present seem to inhere in money.

Before passing on to a short outline of the mechanism of these proposals I should like to touch upon some of the objections which are raised against them. One of the first and most widespread objections met with is fundamental, and probably the most powerful obstacle to their realisation, and might be perhaps called the "Puritan Ideal." That "it is not good for people to have what they want, that human nature is essentially bad, and that life should consist to a very large extent in running to see what Johnnie is doing, and telling him he mustn't." It is quite evident that if this position be taken up no progress along these lines is possible, and it is obviously not a matter for argument but is purely one of belief. I would, however, repeat

that in a more or less veiled form, it is very prevalent and will have to be faced in the open sooner or later. A second objection, perhaps worthy of a little more respect, is that human nature will not be permanently satisfied by what is called "material progress." This is quite probably true, but as an objection to Social Credit it is, I think, irrelevant. If, as is quite probable, the result of an initial extravagance is a reversion to a very much simpler type of life than we have at the present time, so much the better. Such a state of affairs would be far more stable if it came as the result of experience than as the result of an imposed ideal. A third objection, perhaps almost universal, is that Social Credit, by relieving everyone of the fear of poverty, would remove the chief stimulus to what is called "work," with the result that civilisation would fall to pieces.

Now superficially this is an important objection, and not lightly to be disregarded. If the existing state of affairs provided evidence that the fear of poverty was a successful stimulus, was a successful motive power for society, it might perhaps—I do not say that it would— be justified on pragmatic grounds; but it must be quite obvious to anyone who is familiar with the facts of industry that the fear of poverty is the worst possible incentive to successful industry. I have no hesitation whatever in saying that the most important work, the hardest work, and the most work per man in the world is done by men who have no fear whatever of poverty and no human likelihood of ever being poor. Conversely, these sections of society which are constantly faced with the fear of poverty tend automatically to become incapable of anything but the lowest grade of work, and ultimately do even this work less efficiently than better-paid and socially better-placed individuals. Whatever function it may have fulfilled in the past, it is my personal opinion that fear of any kind is the most destructive and generally undesirable motive which can be imported into any human action, and that no greater service can be made to mankind than its elimination. There is, however, an additional factor to be considered in regard to the objection that the work of the world would not be done except under the stimulus of poverty and that is that we are rapidly passing from the human labour stage of progress into the machinery stage of progress, and that if the enormous amount of unnecessary work which is stimulated by the existing financial system were eliminated, notably, of course, the completely non-productive labour of what is called "business" as opposed to production and distribution, the work of the world could be done with a surprisingly small percentage of the labour available, a state of affairs which might be visualised perhaps by imagining the human being to pass four years in a school, three years in a university, and three or four years in an industrial organisation, passing, perhaps, at the age of twenty-four or twenty-five into what we might call the "reserve."

Having the preceding considerations in mind, we are in a better position to examine the reasons why the economic and financial system does not at present fulfil them and what changes would be necessary in order that it should do so.

Let us first be clear that the defect does not lie in any failure of the production system. The rate of production of a given article per human unit of labour has enormously increased and is continually increasing over that which was competent to give a reasonable standard of living four or five hundred years ago. For instance, in 1928 the rate of production of pig iron was three times as great per man employed as it was in 1914. A workman using automatic machines can make 4,000 glass bottles as quickly as he could have made 100 by hand twenty-five years ago. Taking 1914 as 100, in 1919 the index of factory output was 147 and the index of factory employment was 129. By 1927 output had risen to 170 and employment had sunk to 115. In 1928 American farmers were using 45,000 harvesting and threshing machines and with them had displaced 130,000 farm hands. Motor car output per man has increased during the same period by 210 per cent.

Similarly it would be absurd to contend that human necessities, much less human desires, are fully met. The existence of a poverty problem face to face with an unemployment problem and side by side with a marvellously effective production system ought to direct our attention unflinchingly to the fact that it is something that stands in between consumption and production which is the cause of our difficulties. There is only one thing which stands between production and the desire to consume and that is the ability to pay, in other words, money, and thus it is to the money system we must look for the source of our troubles.

Now the simplest method of obtaining a physical conception of the situation is to regard the money system and the price system as a double-entry system of book-keeping. Every article which is produced has a price attached to it, and somewhere on the opposite side of the account there should be a sum of money

capable of moving each and every article out of the production system into the consuming system. Since money is the mechanism by which the consumer gives orders; no money, no order; no order, no delivery; and ultimately, no delivery, no production. Having this conception firmly fixed in your minds, you will see at once that if the total amount of money available on one side of the account is less than the total amount of prices on the other side of the account there must be something remaining unsold always. Now the reasons why the amount of money on the consumers' side of the ledger is always less than the collective amount of themselves are quite sufficient to account for the difficulty are (1) the double circuit of money, which has been dealt with by me under what is called the "A plus B theorem," and (2) the reinvestment for production, of money which is obtained by the production of goods for consumption.

These two, while not identical, are to some extent interlocked, and are not very suitable for explanation verbally, so I have arranged to have upon sale a short leaflet which explains them, and I will merely ask you to accept from me the statement which I have made above, that the collective price of goods for sale is always much greater than the collective money available to buy them. This being the case, certain very interesting and very important considerations become evident. The first of these is, that it is easy for a condition to arise in which it is impossible to obtain goods which are physically available in sufficient quantity, for lack of money which can only be obtained by making further goods, which may or may not be physically necessary. That is why unemployment without money is called "industrial depression," although unemployment with money is called "leisure" and a "high standard of prosperity." The second consideration is that, since under no conditions can an industrialised country buy all that it produces, it is forced, not by physical circumstances, but by its book-keeping system, to compete in foreign markets with other countries suffering from exactly the same difficulty, and we have, in this artificially produced competition for a market, which ultimately must, as a mathematical proposition, fail to absorb all its goods, the primary and overwhelmingly important cause of war. It is not too much to say that there is no single cause operating in the world today which is of such primary importance in a consideration of world conditions and is so fraught with the possibility of world disaster as is this disparity between purchasing power and prices. Now you may ask, as indeed many people have asked, since at one time or another purchasing power is distributed to an amount equal to the cost of any article, how is it possible that purchasing power is not equal to prices in spite of the fact that you can demonstrate that it is not? In other words, where has the money gone to? The answer to this is quite short. It was created by the banks, and it has gone back to its creators and been destroyed. The banking system, therefore, is the core of the monetary problem, and when I say this I particularly want you to avoid making the mistake of assuming that it is the profits of the banking system which I am attacking. I think these profits are exorbitant, but they are quite unimportant in comparison with the disastrous effects of the system itself which the bankers operate.

Space will not permit me, nor in my opinion is it tactically desirable, to go into great detail in regard to the mechanism by which the situation can be put right, but the main principles arise directly out of a consideration of the disease and are quite simple. There are three : (1) That the cash credits of the population of any country shall at any moment be equal to the collective cash prices for consumable goods for sale in that country (irrespective of the cost price of such goods), and such cash credits shall be cancelled or depreciated only on the purchase or depreciation of goods for consumption. (2) That the credits required to finance production shall be supplied not from savings but from new credits relative to production, and shall be recalled only in the ratio of general depreciation to general appreciation. (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 wages and salaries as production keeps increasing per man hour.

The relation of the first two of these considerations will be clear to you upon a careful consideration of what I have previously said. I should like, however, to add a few words in regard to the third of these, and I might premise my remarks by pointing out how completely it inverts the normal Socialist idea that there is something wicked about a dividend and something laudable about a wage or salary.

From one point of view a perfect financial system would simply be a mirrored reflection of every change in physical facts of the economic system, and the first physical fact which ought to be obvious to us is that the business of production is being transferred by the labour of science and the progression of the industrial arts from the backs of men on to the backs of machinery. Now can there be anything more insane than to say that the benefits of this transference shall not be enjoyed by men at large unless they are

working? But apart from this insanity it is wholly impracticable. While engineers, industrialists, organisers and administrators are doing their best, as they *are* doing their best, to put men out of work, or as they phrase it, to produce more units of production for less units of labour, the politician is screaming that the most important problem of the present time is the one of unemployment, and that the best brains of the country should be concentrated on the problem of finding a job for everyone. Whether or not the best brains are concentrated on this problem, the fact remains that the unemployment figures are rising daily. You will see, I think, without difficulty that the solution of this situation is easy if you will only divest it of any pre-conceived ideas of social morality, and turn your back on such ideas as “if a man will not work neither shall he eat,” a sentiment which in my opinion was merely a statement of fact in the conditions under which it was written and not intended to be a canon of ethics. If one imagines a state of affairs in which one man working short hours can produce all that the requirements of ten men can absorb the proper thing to do is to pick the best man for the production and issue to the other nine men tickets which will enable them to get their share of the production, or in other words, draw a dividend on it. If we do not do this, it is not the slightest use letting him produce enough for ten men, because they cannot get their share and are driven to work, not because there is any necessity for work, but because we have not enough sense to accept the benefits which the progress of civilisation is endeavouring to force upon us.

IV

SOCIAL CREDIT PRINCIPLES

Address at Stanwick in 1924. Reprinted from *The New Age*, November 20th, 1924.

THE financial system is the works or factory system of the world, considered as one economic unit, just as the planning department of a modern factory is of that factory.

No discussion of the financial system can serve any useful purpose which does not recognise:

(a) *That a works system must have a definite objective.*

(b) *That when that objective has been decided upon it is a technical matter to fit methods of human psychology and physical facts, so that that objective will be most easily obtained.*

In regard to (a) the policy of the world economic system amounts to a philosophy of life. There are really only three alternative policies in respect to a world economic organisation:

The first is that it is the end in itself for which man exists.

The second is that while not an end in itself, it is the most powerful means of constraining the individual to do things he does not want to do; e.g., it is system of government. This implies a fixed ideal of what the world ought to be.

And the third is that the economic activity is simply a functional activity of men and women in the world; that the end of man, while unknown, is something towards which most rapid progress is made by the free expansion of individuality, and that, therefore, economic organisation is most efficient when it most easily and rapidly supplies economic wants without encroaching on other functional activities.

You cannot spend too much time in making these issues clear to your minds, because until they are clear you are not in a position to offer an opinion on any economic proposal whatever.

In regard to (b) certain factors require to be taken into consideration.

1. That money has no reality in itself. That in itself it is either gold, silver, copper, paper, cowrie shells, or broken tea-cups. The thing which makes it money, no matter of what it is made, is purely psychological, and consequently there is no limit to the amount of money except a psychological limit.

2. That economic production is simply a conversion of one thing into another, and is primarily a matter of energy. It seems highly probable that both energy and production are only limited by our knowledge of how to apply them.

3. That in the present world unrest two entirely separate factors are confused. The cry for the democratisation of industry obtains at least 90 percent of its force from the desire for the democratisation of the *proceeds* of industry, which is, of course, a totally different thing. This confusion is assisted by the objective fact that the chief controllers of industry get rich out of their control.

I do not, myself, believe in the democratic control of industry any more than I should believe in the democratic control of a cricket team, while actually playing, and I believe that the idea that the average individual demands a share in the *administrative* control of industry is a pure myth.

The present world financial system is a government based on the theory that men should be made to work, and this theory is considerably intermixed with the even stronger contention that the end of man is work. I want you to realise that this is a statement of fact, not a theory. More than 95 percent of the purchasing power actually expended in consumption is wages and salaries. It will therefore be seen that

there are two standpoints from which to examine its mechanism. The first considered as a method of achieving its political end of universal work, and the second as a means of achieving some other political end—for instance, the third alternative already mentioned.

Considered as a means of making people work (an aim which is common both to the Capitalist and Socialist Party politics) the existing financial system, as a system, is probably nearly perfect. Its banking system, methods of taxation and accountancy counter every development of applied science, organisation, and machinery, so that the individual, instead of obtaining the benefit of these advances in the form of a higher civilisation and greater leisure, is merely enabled to do more work. Every other factor in the situation is ultimately sacrificed to this end of providing him with work, and at this moment the world in general, and Europe in particular, is undoubtedly settling down to a policy of intensive production for export, which must quite inevitably result in a world cataclysm, urged thereto by what is known as the Unemployment Problem. To blame the present financial system for failing to provide employment is most unfair; if left alone it will continue to provide employment in the face of all scientific progress, even at the cost of a universal world-war, in which not only all possible production would be destroyed, but such remnants of the world's population as are left will probably be reduced to the meagre production of the Middle Ages.

Considered as a mechanism for distributing goods, however, the existing financial system is radically defective. In the first place, it does not provide enough purchasing power to buy the goods which are produced. I do not wish to enter at any great length into the analysis of why this is so, because it is always a matter of some heated controversy. I have, however, no hesitation whatever in asserting not only that it is so, but that the fact that it is so is the central fact of the existing economic system, and that unless it is dealt with no other reforms are of any use whatever. And the second feature of equal importance is that considerably less than the available number of individuals, working with modern tools and processes, can produce everything that the total population of the world, as individuals, can use and consume, and that this situation is progressive, that is to say, that year by year a smaller number of individuals can usefully be employed in economic production. To summarise the matter, the principles which must govern any reform of the financial system which will at one and the same time avoid catastrophe, and reorientate world economic policy, along the lines of the third alternative, are three in number:

1. That the cash credits of the population of any country shall at any moment be collectively equal to the collective cash prices for consumable goods for sale in that country, and such cash credits shall be cancelled on the purchase of goods for consumption.
2. That the credits required to finance production shall be supplied, not from savings, but by new credits relating to new production.
3. That the distribution of cash credits to individuals shall be progressively less dependent upon employment. That is to say, that the dividend shall progressively displace the wage and salary.

I may conclude by a few remarks on the position of the banks, in respect of this situation. It is becoming fairly well understood that the banks have the control of the issue of purchasing power to a very large extent in their hands. The complaint which is levelled at the banks is generally that they pay too large a dividend. Now, curiously enough, in my opinion, almost the only thing which is not open to destructive criticism about the banks is their dividend. Their dividend goes to shareholders and is purchasing power, but their enormous concealed profits, a small portion of which goes in immensely redundant bank premises, etc., do not provide purchasing power for anyone, and merely aggrandise banks as banks. But the essential point in the position of banks, which is so hard to explain, and which is grasped by so very few people, is that their true assets are not represented by anything actual at all, but are represented by the *difference between a society functioning under centralised and restricted credit and a free society unfettered by financial restrictions*. To bring that perhaps somewhat vague generalisation into a more concrete form, the true assets of banks collectively consist of the difference between the total amount of legal tender, or Government money, which exists, and the total amount of bank credit money, not only which does exist, but which might exist, and which is kept out of existence by the fiat of the banking executive.

THE GOLD STANDARD AND INTERNATIONAL EXCHANGE

It must be within the experience of most people who have endeavoured to popularise the idea of finance with which this review is associated, to find that the question of international exchange forms a stumbling block. In the case of those persons of whom, perhaps, it is most important to make converts, such as businessmen and others who deal practically with the everyday transactions of commerce, it is frequently possible to obtain an admission that some new conception of finance, besides being desirable, does not appear to present insuperable difficulties in regard to internal business, but is ruled out of the sphere of practical politics because of (what seems to them) the insurmountable difficulty of international trade on a basis other than that of the gold standard.

It is relevant to observe in the first place that this is exactly the idea which the upholders of the gold standard would wish to disseminate. It is fairly obvious that if you can imbue an effective majority with the idea that nothing can be done for the financial system except as the result of world-wide and international agreement, you are going to put off any considerable action for a long time. It is convenient, though not necessarily accurate, to say that the length of time required to obtain action in regard to any fresh idea, varies directly as the square of the number of people required to be convinced, and inversely as the simplicity of the proposal, and is unaffected by its essential soundness.

But while, I think, there is reason to suspect conscious assistance to the idea that finance can only be treated as a world-wide problem, and that reform on any other basis is impracticable, there are doubtless genuine difficulties in the apprehension of the fallacy involved in this idea; difficulties which in the main arise from the conception of money, and more particularly gold, as having some fixed value in itself.

Now the theory, if theory it may be called, of a gold exchange standard is that if two articles, A and B, have prices attached to them in different currencies, those prices will vary inversely as the amount of gold which the currencies in question will buy, varies. That is to say, if the price of gold in English currency is £4 per ounce, the price of gold in American currency is \$20 per ounce, and the price of two articles, A and B, in the respective countries is £1 and \$5, a rise in the price of gold in Great Britain to £5 per ounce would mean a fall in the price of article A, if bought by United States currency, by 25 percent, and a rise in the price of article B, if bought in British currency, by a similar amount. That is the theory, although it is very far from being what actually happens.

The first point to observe is that we are considering the interplay of two kinds of credit systems. The national currency depends for its validity on the fact that, if tendered inside the country of origin, goods will be delivered in exchange for it. Gold, in the post-war world, has been artificially elevated into a super credit system of a peculiar kind. For the individual, gold is an effective demand for currency of any country at the gold exchange rate. For the banking institution, however, gold is not merely an effective demand for currency at the gold exchange rate, it is an effective demand for international credit to the amount of several times the face value of the gold. These considerations may enable us to get a firm idea of the tremendous power given to banking institutions by persistence in the use of gold, and on the other hand, to realise that its use is essentially unnecessary. In regard to the first, we have the astonishing situation that an ounce of gold in the hands of John Smith is worth only £5, but in the hands of the Bank of England it is probably worth £50—a situation which obviously cannot fail to keep John Smith where he belongs, from the point of view of the Bank of England. In regard to the second point, we can see from the proposal enunciated above, to the effect that a national currency derives its validity from its effectiveness as a demand for goods and services, that the problem of maintaining the exchange value of a national currency, while eliminating the use of gold, depends on the validity in a foreign country of the given currency as a demand for the currency of the second country in question. It is easy to prove that this is ultimately dependent on the ratio of unit prices to unit purchasing power in the same country. If we exclude the trade in money as a commodity in itself, the only object in buying a currency of a foreign country is in order that one may, with a currency so bought, buy goods or settle an account. If this be borne in mind (and an astonishing number of people seem to lose sight of it) the value of that currency depends solely on what it will buy. In other words, if we untie a currency from the gold standard, its exchange value is inversely proportional to the relative price level of

commodities in the countries concerned. The lower the price level, the higher the exchange value of the currency. This is fundamentally incontestable, and I have never, in fact, heard it seriously contested.

If, as is suggested in the ideas that I have put forward, a considerable proportion of the credits which are created in the country are applied to the reduction of prices, then it is quite obvious that a given unit of, let us say, English currency will buy more than it would before : the ratio, unit purchasing power is raised.

unit prices

Consequently a given unit of currency will find a purchaser in foreign currency at a higher price than it would before, assuming that the ordinary influences of the market were allowed free play. I do not think that if such a scheme were put into operation these influences would be allowed free play, and the first result would possibly be a wholly artificial depreciation of, say, the British unit of currency in the world exchange market—a matter which the exchange brokers could quite easily arrange. But the result of this would be that the British unit of currency, bought at less than its true exchange value in some foreign currency, would, in terms of that foreign currency, buy still more goods than even it ought to under the proposed change. The result of this is easy to foresee. In the first place, it would result in an enormous yet temporary export trade, against which competitors would have no effective weapon other than to apply the same modifications to their financial system. Secondly, in the language of the stock market, the money “bears” would be caught short of British currency, and caught short without the least possible chance of ever buying to cover, except at a ruinous loss. I am inclined to grant them sufficient intelligence to enable them to see this very quickly, and I have no doubt at all that the almost immediate result of the application of credits to the reduction of prices in, for instance, Great Britain, would be to send British exchange above par.

FINANCE AND BRITISH POLITICS**Address delivered at Westminster, February, 1926***I. Internal*

IN addressing you upon the subject of "Finance and British Politics," I think it would be worthwhile devoting a few minutes to examining the meaning of the words of the title. I find on consulting an etymological dictionary that the word "finance" has two alternative derivations, one meaning "to pay a tax," and the other "to come to a settlement with." I think these meanings both have their interest, but they do not furnish the definition for which we are looking. Finance as it concerns questions such as national politics is often referred to as High Finance, and I would suggest to you as a definition of High Finance that it is the business, art, or science, of manipulating the money system to obtain political or economic results. Please note that it is not the money system in itself. The money system can accurately be described as a ticket system, and the relations between, for instance, the quantity of tickets issued and those which are automatically recovered through the price system, while of immense and even preponderating importance, since they afford High Finance its opportunities, are not those relations which correctly come under the description of High Finance. They are more or less automatic relations, and High Finance concerns itself with using this price-and-money system as it stands, to obtain varying ends. I myself, and others, have devoted a great deal of time to the money system, both in books and in speeches, which have been reprinted, and those of you who are not familiar with that, the primary aspect of the question, might perhaps consult those publications. I think it is of practical importance to keep the conception of money systems, and the use which is made of the present money system, separate, for reasons which will become apparent as we examine the subject.

The essence, however, of the existing money system is that it creates an artificial scarcity of purchasing power on the one hand, and places the power to relieve this scarcity in the hands of an international organisation on the other hand.

Let us turn now to the second half of the title "British politics." Taking the second half of the title, "politics," it is again of interest to find that there are three words, which are allied, which bear upon it; one of these is "policy" in the sense of a plan or scheme, the second is "police," which originates from a word meaning "civil government," but has come to mean the use of physical force to enforce law, and the third is again "policy," which means a warrant for money. We are familiar with the latter chiefly in connection with what we call an insurance policy. I mention these etymological derivations for the purpose of suggesting how closely connected are the words meaning Government, and those meaning money transactions.

It is common to assume, at any rate as a convention, that British Policy is the greatest-common-measure of what would be the policy of individual Britons. One of the first points I wish to make to you is that this is not true, that it probably never was true, that it is probably less true now than it ever was. The same argument can be applied to the politics of other countries, but we are not tonight concerned with these.

Now, before proceeding further in examining the divergence between so-called British Policy and the policy of the individuals who live in Great Britain, it is worthwhile considering certain facts. To avoid a charge of plagiarism I may say that the whole of this address was drafted some weeks before the delivery by Mr. McKenna, the Chairman of the Midland Bank, of the speech which so lucidly emphasises these facts.

It is notorious that, with numerically few exceptions, at the present time the individual Frenchman is richer than he ever was and more prosperous than he ever was. It is notorious that in the years 1919, 1920, and 1921 the individual German was more prosperous perhaps than he had ever been, and that since the Dawes plan was applied, Germany is "on her feet," but the Germans are starving. It is said at the present time that France is financially bankrupt, just as it was said in 1922 that Germany was financially bankrupt. I mention this, not necessarily to commend either the condition of affairs in France at the present time, or those which existed in Germany before the so-called stabilisation of the Mark, but to point out that, even in

the language of the Press, it is possible for there to be a complete contradiction between what is called the prosperity of the individual (and I mean by that, the prosperity of the great majority of individuals), and something which is referred to as National Prosperity. You will see that there is in fact a suggestion that the two stand on opposite sides of an account, that the State becomes rich at the expense of the individual, or the individual becomes prosperous in proportion as he escapes from the power of the State. And it is most significant that France, which has the weakest central Government in Europe, is making the most successful stand against financial domination. There is in fact strong reason to suggest that a prosperous and powerful Government, where the Government is closely connected with finance, does not by any means mean a prosperous and powerful citizenry.

At this juncture I should like to meet a probable criticism in advance. I can imagine someone saying "This is another Hidden Hand theory." Do not allow such an idea to affect your judgment of facts one way or another. Every theory of events which has any soundness must at the present time be a "Hidden Hand" theory, because events are not controlled by Voting or Parliamentary Debate, but by Finance. A theory is neither more nor less likely to be true because it appears to be romantic, nor does it necessarily involve conscious turpitude on the part of, e.g., Statesmen. If you train a man from youth, you can make him honestly believe anything, and I can assure you that there are very few "accidents" in the rise to power of public men. If you consider the influence of such men as the late Sir Ernest Cassel on the London School of Economics and the care taken to see that high permanent officials have an orthodox training, you will see how subtle this influence may be. No doubt many of you have read a short story by Mr. Rudyard Kipling, "As easy as A. B. C.," and considered it to be a brilliant flight of imagination. If there is anyone here who is familiar with the world-wide intrigue to obtain control of the Air Services of the world, and to attach them to some organisation such as the League of Nations, it will require very little emphasis to convince them that that brilliant short story was very far from being a mere flight of fancy. At the present time a much better name for the Hidden Government would be "Dollar Diplomacy," although that is by no means comprehensive.

Since the time of Cromwell, excluding the short Restoration, the financial policy of the British Government has been based on a theory of scarcity. It has been the custom in this country to suggest that, figuratively speaking, the individual only clings on to economic life by his eyelids. As time passes, I am beginning to be more and more doubtful whether this was ever necessarily true, while I am quite certain that it is not necessarily true at the present time. But if you will cast your mind back over the known periods of economic distress in this country, you will find that they are definitely traceable to financial policy in some sense or other. For instance, a serious depression stretched from the time of the Crusades to the beginning of the Renaissance, and is explainable, I think, far better by the fact that the English nobles were all mortgaged to the Jews as a result of the Crusades, than in any other way. The Renaissance itself was specifically due to the opening up of the wealth of the West Indies, and the influx of gold and other treasure, as a result of the forays of Drake, Hawkins, and their confreres, combined with the isolation of British Finance from that of the Continent. The Hungry Forties were no more due to the Napoleonic Wars than the present industrial distress in this country is due to the European War. They were due to the hold which financiers, such as the Rothschilds, obtained upon this country, and the consequent passing of the Bank Act Charter and other financial restrictive legislation; and coincided with the rise of the Joint Stock Banks and the absorption of the English private banks, and they were relieved by the discovery of gold in California in 1848. A similar period of prosperity followed the discovery of gold in South Africa. We have just been favoured with speeches from the Chancellor of the Exchequer and the Prime Minister demanding economy. Those speeches merely justify a policy which is continuous, but which has received temporary setbacks for reasons which are easily understandable, but need not detain us tonight.

This theory of scarcity is closely allied to a financial policy of money saving or its more elaborate successor, Insurance. No one can make any pretence to an intelligent understanding of the present situation who does not recognise firstly how deeply ingrained this policy has become in the methods of the British Government, and at the same time how completely divorced this practice is from any relation to physical fact, just as those two speeches to which I have referred have no justification for their demand for sacrifice.

If I have an income of £500 per annum and I save, as the phrase goes, £100 per annum of this sum, either by the simple process of putting it in a bank, or by the investment of it in an insurance policy, I

decrease my expenditure by 20 percent, and I certainly provide myself with money for use at some future time. But there is no physical saving corresponding to this money saving. In fact, owing to the inter-connection of the financial system with the producing system, there is probably an actual destruction of wealth due to the fact that I do not spend the whole of my income. More goods would have been drawn from the shops, more orders would have been given to the manufacturers to replace those goods, and consequently a real ability to produce more goods per unit of time would have been created, probably by an extension of manufacturing facilities, had I spent my income. But if I save my money, only one of two things can possibly happen in the world of actualities: either goods which have been produced will not be bought and will therefore be wasted, or in anticipation of the fact that I should not buy them they will never have been produced. That, I think, is an accurate description of the result of financial saving and insurance, so far as it affects the production system. I do not, of course, overlook the immense forces which impose this policy of saving upon the individual, due to the much greater importance to him of the possession of money than the production of goods. That is merely to say that Finance has the power to impose a policy on the public, even if that policy is demonstrably anti-public in character. Notice that the effect of this is still further to reduce an amount of purchasing power which would be insufficient to buy the product, even if it were all spent.

British financial policy has become a policy of heavy taxation of the individual. Taking the present situation as being the logical culmination of this policy, a few concrete figures will perhaps put the situation as shortly as possible. Let us begin with our particular form of capital levy, the Death Duties. These range from 10 percent, to more than 50 per cent, of the total sums devolving upon the death of the individual, and it must be remembered that while these are strictly equivalent to an individual capital levy, the sums received from this source go to swell the revenue of the current year. In other words they are a peculiar form of Income Tax ranging up to 60 percent. Then we pay in Excise Taxes more than 135 millions sterling per annum, every penny of which goes on to the cost of the articles consumed. We pay nearly two millions sterling per annum on the matches we strike and over 50 millions per annum on the tobacco we smoke. Our motorcar taxes are more than four times as heavy as any other country in the world. But it is in the Income Tax that our financiers show what they really can do, and the position is best shown by a contrast with the only other country which seriously levies an Income Tax, I mean the United States of America. In the United States of America a married man with two children, having an income of £1,000 per annum, would pay a tax of £5 5s. 0d. The tax under similar circumstances in England at the present rate would be from thirty to forty times as much. The taxes upon large incomes are fantastic, running up to fifty or more percent of the total income, where this exceeds £30,000. In the United States a married man is exempt from any tax on an income of about £500. In Great Britain he is only exempt on half that sum. Each child in the United States is the basis of an allowance of about £90 of income free from tax, in England there is a nominal rebate of £35, but owing to the peculiar way in which this is computed the allowance is really only half that. Remember that all these enormous sums have appeared in *prices*.

There never was a time, and there never was a country, in which so-called insurance (which if it means anything, means a defence against economic uncertainty) grew to such dimensions as exist in Great Britain at the present time. And I suppose that there never was a time, and there never was a country, in which there was such a general feeling of insecurity and economic danger. I think that this feeling of insecurity is more due to penal taxation and powerlessness to resist it than to any other single cause.

We have considerably more than a million able-bodied workers unemployed; we have a high bankruptcy rate; our railways, and especially our electric power services, are falling behind those of any other first-class power, half our shipping is laid up, and our shipyards are idle. Our housing conditions are a byword, and it is proposed to remedy them by methods which would not be accepted on the Canadian prairies. Three hundred thousand so-called Fascisti are preparing to start a civil war with about a similar number of striking coal-miners, who cannot produce coal at a profit while charging the consumer twice what he paid ten years ago, and all that we can show, I think, on the other side of the ledger, is that we have 8,600 branch banks on most of the corner sites of the country, and the most elaborate and successful insurance offices in the world.

Consider also the Land question, which has again come to the fore as the result of the efforts of a statesman well known in connection with pheasants and mangel-wurzels. There has been a persistent attack

upon the private ownership of land by the Liberal Party for the last hundred years. The Liberal Party (for many of whose ideas I have the greatest respect) has been consistently financed by the banking interests in this attack upon property, and especially in that particular aspect of it which has to do with site values. What has been the result of this attack? The answer is easy. Ninety-seven percent of the finest sites in this country are owned by banks and insurance offices, and the only reason that they have not got the other three percent, is that for the moment they do not want them.

I am going to commit myself to a somewhat strong statement. Modern taxation is legalised robbery, and it is none the less robbery because it is effected through the medium of a political democracy which is made an accessory by giving it an insignificant share in the loot. But I do not think robbery is its primary object. I think policy is, much more than mere gain, its objective. I think it is most significant that every effort is made by economists of the type turned out by the London School of Economics to instill into the Labour Party that it is possible to obtain some sort of a millennium by accelerating the process of stealing. It is one of the many symptoms which make me fairly sure that there is a close connection between High Finance and the propaganda supplied to what is called revolutionary labour in every country, a connection such as has been traced between Wall Street and Russia. So far from the expression of extreme Socialism of this type being a bar to advancement in the Treasury and the great Financial Houses, it is almost a requisite to promotion.

You will quite properly feel inclined to ask at this stage of the argument: "Are you stating that the condition of affairs in Great Britain is the result of conscious policy aiming at producing the results that we see round us, or are you merely suggesting that British financiers are incompetent?" If the former, what is the ultimate object of that policy?

Taking all these matters into consideration, and having made it my business to observe the course of events in the United States of America, together with what information it is possible to glean in regard to Italy and Russia, I have come to the conclusion that we are witnessing a gigantic attempt, directed from sources which have no geographical nationality, to dispossess a defective democracy, and to substitute a dictatorship of Finance for it. I do not think public men necessarily agree with this, but I do not think they struggle very hard against it. They would not become public men if they did. The tactics which are being employed to further this policy must necessarily involve an attack upon all forms of purchasing power which are not gained by what is called work. It is a matter of no consequence to such a policy that an individual should receive high wages or a large salary. These can be taken from him at any time should he develop an inconvenient faculty of criticism. It is not even a matter of serious importance that he should acquire securities which are a basis of dividends, if by means of heavy inheritance taxes it can be ensured that he only acquires them by work of a specified kind. Given a sufficiently passive acquiescence in the policy which is imposed upon him, there is no reason why he should not be well fed and materially prosperous. But it is necessary that he should not have power until he has been through such a training as will ensure his docility to the hierarchy of Finance, and I may, perhaps, say that I think that the elimination of an independent upper middle class is an intermediate objective of that policy.

In my subsequent address I hope to show you legible indications of the working of this policy in international relationships, and the only line, in my opinion, along which it is possible to take effective action to counter it.

II. External

It will have been plain to those who have followed the examination of the relations between Finance and Internal British Politics that the validity of the ideas involved in that examination rests largely upon the acceptance of a somewhat unorthodox or at any rate unfamiliar theory of world politics. I think perhaps it would be convenient at this point to state that theory.

In the first place it is suggested that the aims of national Governments are by no means the same things as the aims of the majority of individuals in the countries they are supposed to represent. Further, that these Governments are far more responsive to influence from financial sources than they are to popular influence. We might almost go so far as to say that the modern Government is quite insensible to popular influence,

and that no serious change of policy is effected by a change from one party to another. This is certainly true where the subject in which such influence might desire to be exercised conflicts with the interests of Finance. A consideration of the relative progress, during a period of acute housing shortage, in the building of small houses on the one hand, and the building of branch banks on the other, will perhaps afford an example of what I mean.

It therefore becomes a matter of the first importance to find out what would be the interests of Finance in relation to the apparently conflicting interests of various national Governments, because if we can get any clear idea in regard to this, and we admit (as I have suggested we are obliged to admit) that Finance can make itself effective through any Government, and is common to all Governments, then we should be able to obtain some insight into the probable trend of international politics.

Now I think there is very little doubt that Finance has this in common with human nature. Self-preservation is the first law of its being. The first rule which we should expect to find operating in this connection, therefore, is that Finance would tend to favour those nations where Finance itself finds the most congenial home.

There is very little doubt that the effective headquarters of world Finance at the end of the eighteenth and the beginning of the nineteenth centuries were in London. It is a matter of common history also, that the end of the eighteenth century and the earlier part of the nineteenth century witnessed a condition of general culture in England which was lower and more brutal than that existing in any other portion of the civilised world. It is not necessary to elaborate this side of the question. I do not suppose anybody would seriously contest it, but in any event a consideration of the penalties prescribed by the criminal law, or even a slight excursion into the literature and particularly the biographies covered by the period referred to, are sufficient to prove the point.

But during the last 100 years, and more particularly during the last thirty or forty years, the temper and tone of the people of this country have undergone a great change, and I think a change for the better. Our laws and the punishments connected with them are probably still the harshest in the world—there is, for instance, no other country in which the punishment of flogging by the “cat” is legal—and there is a notable increase in their harshness since Finance regained control of the post-war situation. Notice also the resurrection of the prize ring, which had its hey-day in England when Finance was unquestioned, but now flourishes best in America. But there is an increasing dislike and protest in regard to these things on the part of the general public. Germany before the war, or perhaps it would be fairer to say Prussia, had a culture which was not dissimilar to that imported into England by our Hanoverian Kings at the end of the eighteenth century, and Finance in Germany was even before the war seriously contesting the pre-eminence of British Finance. Frankfort had begun to look coldly on London.

In the past fifteen or twenty years, however, the event of the most outstanding importance in world politics has been the rise to power of the United States of America. It is the common convention to ascribe this rise to the possession, by the United States Government, of unique economic resources. While economic resources are a factor in the question, I do not myself think that they are anything like so important a factor as is commonly believed, and they are certainly not the only or even the dominating factor. Under present conditions, any country is as prosperous as Finance allows it to be.

Side by side with this rise to world power of the United States, there has arisen a culture which is markedly similar to that of the eighteenth-century England, or nineteenth-century Prussia. In saying this, I do not overlook the existence in the United States of a very large number, perhaps even a majority, of people who are kindly, tolerant, and charming. But I am personally familiar with the United States over a period of more than twenty-five years, and I do say most emphatically, that these people do not represent the effective culture of the United States, and further than that, that their influence is considerably less effective now than it was twenty-five years ago. Lynching, murder, and other crime is a reflex of a police system which is both corrupt and brutal. While American law is milder than ours, its enforcement is more barbarous.

It is more than a coincidence that at the periods to which I have referred, Finance and a particular type of culture, which you can call Prussianism if you wish to give it a name, have been dominant at one and the

same time, and I think you will see that it is not a very long step from recognising and admitting this to recognising that the interests of Finance might be expected at the present time to coincide with the domination in international politics of the United States of America.

Perhaps the question of international War Debts affords the clearest indication of the policy of High Finance. You are all familiar with the general outlines of the Debt settlements which have been arranged. The financial representatives of the British Government pledged the credit of the British people to the United States Government. The United States Government issued loans to the population of the United States in exactly the same way that the British Government issued loans to the British people. The banks and issuing houses *created* new money, *lent* it to the people to invest in the loans, and held the loans as security for the "Debt." In both countries the ultimate owners of this debt were the bankers and not the Governments. Now I do not believe that a few people, many of whom are no doubt here tonight, are the sole possessors of sufficient intelligence to understand the true meaning of this process. That does not seem to me to be a reasonable hypothesis. But in spite of the fact that there must have been numbers of people in important positions, both in Governmental and financial circles, who understood quite well that we never received any money from America either for ourselves or on behalf of our Allies, a financial commission headed by Mr. Stanley Baldwin concluded a post-war arrangement with financiers in the United States which committed us to repay, not the goods which we had received, but the money which we had not received, on terms more onerous even than those financiers acting on behalf of the United States themselves had hoped to procure. The population of this country of forty-five millions, which sustained no small part of the actual fighting between 1914 and 1918, is at the present time committed to pay a large portion of the taxes of a country of 110 millions, whose effective participation in the actual war covered a period of about six months.

Subsequent to the completion of this undertaking, the United States arranged its loan transactions with other debtors who were at the same time much larger debtors of this country. In place of an interest rate of 3½ percent on a sum of about one thousand millions, which is being exacted from Great Britain, an interest rate of ⅛ of 1 percent on a debt of about half that sum has been arranged as between the United States and Italy. Our own financiers (if there can be said to be any ownership in financiers) gave Italy terms equivalent to cancelling five-sixths of the debt. You will not fail to notice that these extremely favourable terms to Italy coincide with the apotheosis of one of the most fantastic tyrannies (not excepting that of Russia) which history has ever known. The result of this and other similar arrangements has been to make it impossible to obtain from our own debtors a sum which is more than a portion of the sum which we have to pay to America, although our collective loans to the Allies in the war considerably exceed our borrowings from America.

This situation has been accompanied by a policy which has been termed the return to the gold standard, a policy which even some of our most influential bankers, to their great credit, have denounced as inevitably reducing this country to a state of financial bondage to Wall Street.

Now, with a full sense of the gravity of what I am saying, I suggest to you that the persons who were really responsible for those Debt settlements (I do not say the figureheads, although I see no reason why they should escape criticism) were financiers before they were Englishmen. They saw, and truly saw, that the power of Finance was shaken to its very base, and that a sacrifice was necessary. The millions of unemployed, the bankrupts, the suicides, the new poor, those and many others are that sacrifice. I hope those of them who survive feel that their sufferings were in a good cause. Finance has been re-established, and there is every prospect, I think, that the main object having been achieved, the Anglo-American Debt will eventually be scaled down, and we may be permitted to enjoy a decorous, if undistinguished, old age—if nothing happens to disturb the plan.

I believe that there is (save the mark) a "gentleman's" agreement between the Bank of England, the permanent Treasury officials, and the Federal Reserve Board—Messrs. Warburg, Mr. Otto Kahn and others intervening—to that effect.

Those of you who have read that remarkable book by Mr. Benjamin Kidd, *The Science of Power*, may remember the following passage: "It is a fact, the significance of which has been overlooked in the past, that Western civilisation has been in a special and peculiar sense founded upon force." The point to which I have

been endeavouring to bring you in this and the preceding address, is that orthodox finance appears to have a subtle connection with this doctrine of force—Force and Finance, if not the same things, are complementary. Quite demonstrably, force has brought one nation after another to a certain type of pre-eminence. With that pre-eminence has come a rise of culture, arising, I think, not out of force, or finance, but out of the economic prosperity which is the bait used by Finance, and subsequent to that rise of culture, forces appear to have been set in operation to transfer the preeminence elsewhere.

I do not suggest that this sequence of events has passed unnoticed or uncommented upon. That well-known classic, Gibbon's *Decline and Fall of the Roman Empire* set a fashion which has had many imitators. In almost every case, and most notably in the case of the immediate pre-war German comment on these matters, the suggestion was that the type of culture to which I am referring, which involves the elevation of such qualities as kindness, mutual consideration, toleration of new ideas, dislike of aggression, in fact all that group of virtues which we call civilised, or, if you prefer it, Christian, constituted a disease of society and led to the downfall of a nation which succumbed to them. It was, in fact, assessed as pure weakness.

The first negative comment which we can make upon this theory is that the fall of Germany was certainly as violent and catastrophic as any in history, and was certainly not due to the undue cultivation of a civilisation of this description. For half a century, at least, Germany had inculcated brutality as a specific principle of her system. Her fall was not due to anything that you might call softness. I believe that in the lying propaganda as to the causes and the reasons of the war, there was a real truth. It was that the world would not have German "Kultur" at any price. Prussian culture set in motion forces stronger than itself, which brought about its downfall. In war time, therefore, civilisation does not fail. It is in peace time that it fails.

Now I want to put before you a totally different theory (which so far as I know is novel, although its novelty is of no importance) as to the reason for the decline of nations which become pre-eminent by force and financial policy and subsequently become civilised. I think that they are brought up to a certain point in evolution by the system that we are living under, and that at that point they are in a very favourable position to develop what I believe to be a really higher level of culture.

While in one sense brute force gave it birth, this level of culture does not rely on force of the ordinary kind. In fact, force of the ordinary kind is distasteful to it. It, and force, together with orthodox Finance, are mutually repulsive. The result of this is to drive Finance to seek for a more congenial environment. You may say this is only a more complicated form of the old explanation. I do not think so. I think you can get a new idea of great value from it.

The danger of a decline, once this level of a new culture is reached, is not, in my opinion, due to that culture in itself. *It is due to the failure on the part of that culture to develop a system of Finance, and a use of force, which is sympathetic to the general spirit of the new culture.*

You may find an analogy to this state of affairs in the life history of many insects—the may-fly for instance. They are brought to a certain stage of development in water, but once that stage is reached they either escape into the air or they are drowned. It is even probable that all life on this planet is compelled by the nature of things thus to change on to a different plane on pain of extinction.

Now the characteristic of orthodox Finance is the centralisation or monopoly of Credit. I could, without much difficulty, prove to you that such a policy synthesises every Anti-Christian principle. The distribution of Credit is its antithesis.

While the details of such a system of Finance are better left for discussion until such time as they might come into the region of practical politics, I do not think there is much doubt of the principles they would be obliged to follow. In the first place they must provide a financial reflection of the physical facts of the producing, distributing, and consuming systems which the existing financial system signally fails to do.

I put this requirement first because from the lack of it arises that peculiar situation which can only be described as a financial bottle-neck, the control of which gives control of the very necessities of life itself.

Closely linked with the fulfilment of this requirement is the necessity for exalting the individual over the group. I mean by that, the exact opposite of what is commonly called Socialism. The direct road to the emancipation of the individual from the domination of the group, is, in my opinion, the substitution, to an increasing extent, of the dividend in place of the wage and salary.

Practically all the evils from which we suffer at the present time can be traced to the ability resident in existing organisations to subordinate true individuality to them. It must be a common experience of many people here tonight to have been obliged to acquiesce passively in transactions either of a business concern or a Government Department which transgress every canon of common decency, and which if done for the advantage of an individual would be generally condemned. The fact that they are done under the orders or for the advantage of some organisation is commonly held to excuse their character. There is, however, another aspect of the greatest importance. Measured by civilised standards, groups are always of lower value than individuals. Conversely, individuals have qualities which are non-existent in groups. I suppose a life-long plot on the part of one man against the well-being of another man is very rare, but a business or national vendetta is the rule, and I should say there were few exceptions to that rule. Acts of generosity without ulterior motive between individuals are common—between nations or businesses as such, are unknown.

The fixing of responsibility on the individual for acts committed by him, or decisions in which he acquiesces, follows logically from the adoption of such principles as I have been suggesting.

Even if it were desirable, the time at my disposal is inadequate to deal with the technical aspect of this problem which is no doubt fairly familiar to many of those interested in it.

In conclusion, however, I should like to emphasise one very important aspect of the whole problem. The desired solution has no basis in sentimentality or abstract Pacifism. To be successful, it has to be a solution which can fight. As I have just said, and as must be only too obvious, modern scientific civilisation is irresistible in war. I believe it is possible to provide a financial system which will so abolish the artificial differences of interest between individuals, that any community, nation, or continent which will successfully put these principles into operation will either compel imitation from the rest of the world, or will reduce any attack upon its principles to the relative position of a mob of bushmen armed with bows and arrows who might be so rash as to attack a modern army equipped with all the terrible weapons of modern warfare.

In the meantime, a few concrete hints may be useful. Resist the abolition of Treasury Notes and the issue of Bank Notes. Always refuse a Bank of England note. Never subscribe to a new issue of shares or Government stock. Buy your shares or stock in the open market, and do not buy new issues. Fight every demand for taxes. Don't imagine it is your duty to pay taxes. You have to, but that is quite a different matter. Take a leaf out of the French taxpayers' book.

VII

THE CONFLICT BETWEEN FINANCE AND SCIENTIFIC INDUSTRY

Address given at the Cannon Street Hotel on June 3rd, 1935.

It is necessary in dealing with the question of money to be quite sure that the assumptions on which the money system is to be founded are both understood and accepted. Some glimmering of this appears to have occurred to Sir Josiah Stamp, in an address which he gave some short time ago, in which he pointed out that the public mind in these matters swung from political interests to industrial interests, which apparently to him were incompatible.

The first definition to which I would draw your attention is that of wealth, and is "the rate at which a nation or any other corporate body of individuals can deliver goods and services esteemed conducive to well-being." The second definition is that "the objective of an industrial system is to deliver goods and services to the individuals included in the nation or other corporate body to which the system is attached, with the minimum amount of trouble to those individuals." The third conception is that of the artificiality of money. The best definition with which I am acquainted, and which is orthodox, is that of Professor Walker, in his book, *Money, Trade and Industry*, which reads that money may be defined as "any medium which has reached such a degree of acceptability that no matter what it is made of, and no matter why people want it, no one will refuse it in exchange for his product."

I would particularly draw your attention to the absence of any consideration affecting what is commonly called morality or ethics in these definitions. Even in these days I suppose that if the booking clerk at the railway station were to address, to the prospective purchaser of a ticket for transportation from London to Edinburgh, an enquiry into his domestic habits and the regularity with which he paid his Income Tax, it would be felt that he was in advance of his time. Similarly, in times of stress, it is noticeable that we do not enquire very strictly into the antecedents of those who are enlisted in our armies. To put the matter another way, as circumstances force us more closely in contact with the underlying realities of life we jettison a good many artificial considerations which seem to grow up around our conduct in peace time.

One of the most important realities of the condition under which we live on this planet is that we live by work; and energy or power is the rate of doing work. Lest some adherent of that much misused phrase "he that will not work neither shall he eat" should read in what I am saying a justification for his belief, I would hasten to point out that it does not matter in the very least how the work is done nor from whence comes the energy by which it is done.

Man requires, primarily, shelter, board, and clothes. It is immaterial whether his shelter is laboriously carved out of the solid rock by hand labour aided by the most primitive tools, or whether by the latest process of poured-concrete construction, machine-made window-frames and doors and other refinements of modern building construction, his house arises, like the tent of the Arab, in the night. Similarly, his food may proceed from wild wheat, sown on ground laboriously scratched with a stick, or it may be the product of selected and scientifically crossed wheat grown thirty, forty, or even more bushels to the acre, on ground which has been steam-ploughed and rendered fertile by the latest nitric manures electrically produced from the atmosphere. His clothes may be made of skin, each one of which may represent months of the time of a trained hunter, or they may be the product of Lancashire and Galashiels, turning out thousands of yards of fabric with the aid of one man watching machines for one day. The fact which underlies these contrasts is that embodied in the law of the conservation of energy, and it may be stated for our purposes in the form that what is commonly called production is simply the transformation of one thing into another; that production *ex nihilo* is impossible, and that therefore, other things being equal, production is simply proportional to the amount of mechanical energy applied to it and is quite irrespective of the agency through which that mechanical energy is applied, muscular, electrical, or otherwise.

In a somewhat narrow sense, the truth of this statement is becoming recognised by the importance which is being given to the question of the electrical distribution of energy in this and every other country, and, of course, this is all to the good. It would be too much to say that this recognition carries with it any

general appreciation of the greater issues that are involved. If you will carry your minds back to what is called the Golden Age in Great Britain, the age of the great Elizabethans, you will find that, although the amount of *extra-human* energy which was employed for productive purposes was trivial, arising from such sources as small and inefficient water-wheels and windmills, a very tolerable standard of living was common, and it was common in spite of much greater general leisure and a good deal of waste energy in the shape of war. I feel sure that amongst my audience someone is yearning to point out that the population of these islands was much less than it is now—a consideration which, I am afraid, leaves me quite cold for reasons into which I propose to go a little later. In this year of grace 1925, in spite of the advancement of science, certainly greater in the last hundred years than in any known similar period of history, life appears to be less secure, more strenuous, and, broadly speaking, less satisfactory, than ever.

Of course, a good many explanations are put forward for this. There is the population explanation in various forms, the adherents of this mostly basing their ideas on the doctrines of Malthus, whose main proposition was that the increase of population tends to out-run the means of subsistence. This interesting contention seems to withstand every possible assault of fact. The fact that families are largest in the most needy sections of the population and decrease, in spite of the most strenuous propaganda, as the standard of living is raised, is one of the facts which seems to rebound without effect from the adherents of this doctrine. As a friend of mine put it, “If you house people like rats, they will breed like rats the converse is equally true.

But a much more important consideration even than this is that this kind of doctrine is powerless to account for, does not, in fact, touch at all, upon the fact that we are constantly witnesses of acts of economic sabotage. When, as the result of the stimulation to agriculture provided by the German submarine campaign, the Argentine and the West of Canada enormously increased their production of foodstuffs, a state of affairs rapidly supervened in which grain was burnt under the boilers of steam engines, and calves were shot and left to rot on the plains of the Argentine, in order that the surplus of foodstuffs should not reach the markets of the world. The late lamented war ceased with such suddenness that it was almost impossible to slow down production for some months after the date of the Armistice, with the result (which involved the financial inflation of the post-war period) that seven years afterwards we can still buy Government surplus production at advantageous prices, in spite of the determined efforts of the orthodox manufacturer and producer to get this material off the market as quickly as possible. During the latter years of the war, when the rate of destruction of material and the waste in the use of it reached a point of which the average individual has no conception, and which certainly exceeds anything the mind of man had previously conceived, it is probably true to say that the standard of living, not only in this but in every other country, reached a higher level than ever previously, and that, with the vast majority of the best producers absent from the country and replaced by persons labelled C3. If you will look at these generalisations, which it is possible to support by any required amount of exact data, you must have the conviction forced upon you that the modern production system, if unhampered, is capable of producing everything that is required of it, and further, that this production involves or can involve the use of a continuously decreasing amount of human energy or labour. That is the first vital point to grasp. The second point is that the best brains of this and every other country in the industrial and scientific field are working as though they recognised their objective to be the replacement of human labour by that of machines, although it is quite possible that very few of them do. To put the matter still more baldly, these best brains are endeavouring to put the world out of work, to create what is miscalled an unemployment problem, but what should properly be called a condition of leisure. At this point we begin to touch this conflict between a classical morality and modern scientific effort. Oblivious to the fact that practically all advance in the world's history can be traced to a condition of leisure, however that leisure was obtained, we find a large number of people prepared to argue that the object of modern scientific progress is to increase employment, and that only the “employed,” in the economic sense, have a “right” to exist.

If this were only a matter of opinion it would not be a matter perhaps of very much importance. But it has to be remembered that our production system and our distribution system are so interwoven as to constitute a government, and the governing factor is not the producing system but the distributing system.

There are three methods by which goods are distributed in a modern community; wages, salaries, and dividends, and the essence of this distribution system is that the distribution of goods is rigidly connected with the production of goods.

There is a considerable outcry against dividends at the present time; an outcry which I am convinced is powerfully fostered from a source very far removed from what is commonly called Socialism.

A week or two ago a review of one of my books was published in a Left Wing Socialist weekly. If I were not aware of the qualifications of the reviewer, I should have regarded it merely as incompetent, but as that word cannot apply I am obliged to use a harsher word; it was a dishonest review.

In the course of this review two points are made, (1) that it is both right and expedient for banks to charge interest upon loans, (2) to quote the exact words of the reviewer, "If my money is wanted for social purposes it is ridiculously extravagant that the State should have to bribe me and my heirs with 5 percent per annum forever to get hold of it. A Socialist State would have the right to take my due contribution towards productive outlay for the future without any such bribe. (Probably it would make the necessary deduction before any income came into my hands at all.)"

That is to say, it is perfectly proper for bankers, who coin money at will, to hold up the country to ransom, not for 5 percent, but 8 percent, or 9 percent, but it is iniquitous that the individual should be paid 5 percent for lending his money to perform a similar service, although he has obtained it by working for it.

Now the curious point is that about two years ago a semi-private publication, circulated only amongst banking officials, came into my hands, containing a review of one of my books. The reviewer was the same person just referred to as employed by the Socialist weekly. It was a much less crude review, but was not less ingeniously designed to mislead. I think the only reasonable deduction is that there is no diversity of interest between the two publications. I mention the matter to make the point which I think requires making, that Finance is at least as dangerous an enemy of the upper and upper-middle classes as it is of the poor. It should be realised that it is not the war which makes us pay an income tax of 4s. 6d. in the pound, a death duty of 20 percent, and a general tax of 70 percent on everything we buy, in the form of increased prices. The war was paid for as we fought it. It is the Banking and Financial system which taxes us.

Finance has got the poor where it wants them, and can and does keep them there; they are comparatively harmless; they are not merely harmless, they are useful; their revolt against the present state of affairs can be made, and is made, an excuse for such measures as penal death duties and steeply graduated taxation, the only effect of which must be to reduce the whole population to the necessity of wage and salary earning. Under these conditions, any expression of opinion likely to be harmful to the financial system or its administrators can be dealt with by deprivation of employment and consequent starvation. If you will think these matters over, you will see that the theory held in some quite well-informed quarters, that Russian Bolshevism and certain aspects of high finance are closely connected, is not so wild as it appears at first sight.

But, in any case, it should be remembered that probably 94 percent of the purchasing power which constitutes the distribution system of this country, is wages and salaries, and, on the whole, this percentage of the total tends to increase, and dividends collectively tend to decrease, for reasons which are plain enough to those who care to study the matter. Now, if you will consider the fact that the general output of goods of all descriptions per unit of mechanical labour employed, is, at least, proportional to the total energy put into the productive system, and that this energy has increased in the last 100 years by at least 3,000 to 4,000 percent, you will see that one of three things must happen. Either everyone must consume thirty or forty times as much as he did before, and increase the amount as the amount of energy put into production increases, or (2) we must get rid, by exportation or otherwise, of an increasing amount of production (in competition with every other industrialised country) in the remaining markets of the world, which are decreasing in size owing to continued industrialisation, or (3) we must recognise that the so-called unemployment problem is something which arises out of the advancement of science applied to industry, and we must modify profoundly our system of distribution.

I hope I have made the dilemma clear. The scientific organisation of industry and the introduction of increased quantities of solar energy into the productive system means, and can only mean, the displacement of human labour from the economic process. Even now there is very little doubt that the present standard of living can be maintained by the working efforts of 10 percent of the population if the productive system were not so largely directed towards money-making rather than goods-making, and the immensely inefficient business system of the country were modified so as to cut down what was termed by Lord Milner "interception." On the other hand, penal taxation, rising prices, and the building up of invisible and visible financial reserves, operate to diminish and even extinguish what are called unearned incomes, thus forcing more persons to compete for employment which science is diminishing in quantity. In order to avoid too much repetition of the matter with which I dealt a fortnight ago, I should like to summarise certain facts in regard to the money system, which those who are interested will find elaborated in the report of that lecture, which has since been published. The first point to recognise is that distribution takes place, in civilised countries, solely by the aid of some sort of money. You do not make money by making goods or by working. It is a fact not disputed, and, indeed, emphasised, by Mr. McKenna, the chairman of the Midland Bank, that "The amount of money in existence varies only with the action of the banks in increasing or diminishing deposits. We know how this is effected. Every bank loan creates a deposit, and every repayment of a bank loan destroys a deposit."

Secondly, the amount of money available as purchasing power is insufficient to buy the goods available for sale at the prices at which they were made. This is also now admitted by various authorities, but even if the system itself did not automatically attain this end, and the proposition that the banks have control of the volume of money be admitted, the banks would be obliged in their own interests to make it true in order to retain control of the situation. The present banking system rests irrevocably on a condition of scarcity in purchasing power. No expansion of productive capacity can permanently affect this state of affairs. Banking credit, which we have just seen constitutes all but an insignificant fraction of the total purchasing power of the country, is a commodity like anything else, and the way to make a commodity expensive is to keep it scarce.

It is impossible to exaggerate the importance of a world-wide antagonism between a system in which every interest is directed to making the machinery of consumption continuously more difficult of access, on the one hand, and a scientific and productive system, which, in spite of handicaps, is continuously increasing its capacity for production; and that is exactly the position of the financial system in its relation with the consumer and the producer. All over the world the signs of a final and deadly conflict, directly traceable to this fundamental antagonism, can be seen. The conflict may not break out for a year or two, or it may break out tomorrow. No one who realises the gravity of the riots at the moment proceeding in Shanghai, in which Americans and Japanese are both involved, would venture to say that serious trouble, from that cause alone, is impossible. But, in spite of the unrelieved gloom of the superficial position, I venture to believe that, even if after some tribulation, we shall break free from the domination of Finance.

VIII

GOVERNMENT BY MONEY, AND ITS EFFECTS

An Address given at the Central Hall, Westminster, on May 21st, 1925.

ANY speaker on the subject to which I am anxious to attract your attention tonight finds himself confronted with at least two major difficulties. The first, and perhaps the more important, resides in the fact that the implications of it ramify into practically all human activities. As a result it is possible to approach the subject from an unusually large number of angles, and some restraint is necessary to prevent an effect of confusion, while presenting a sufficiently comprehensive picture. The second difficulty arises from the fact that the subject is highly technical, but yet is not recognised as such. A speaker on a technical subject, if speaking to a technical audience, has a common ground of agreed knowledge. Or, alternatively, in speaking to a general audience, is generally conceded the advantage of expert knowledge. But, curiously enough, neither of these situations is generally found to be the case in regard to a discussion of the money system. There is practically no agreed body of expert opinion; and the average businessman, engaged in "making" or perhaps losing money is, perhaps naturally, apt to regard himself as being equipped to discuss the matter at length with anyone. The result of this, however, too frequently, is the creation of mental confusion and verbal argument, arising from the clash of two capable logicians arguing from different premises; and, therefore, naturally unable to come to any agreement or understanding. In order to avoid, so far as is possible, this position tonight I propose to ask you to memorise, or, better still, to write down, certain definitions.

These definitions are not necessarily orthodox, and you are, of course, at liberty to question them at your leisure. But they are the definitions and conceptions from which I am arguing in speaking to you. The first definition to which I would draw your attention is that of Wealth, and is, "The rate at which a nation or any other corporate body or individual can *deliver* goods and services esteemed conducive to well-being." I would ask you particularly to notice that the word "*deliver*" is used in this definition, and not the word "produce," and also to notice the inclusion of the word "rate." The second definition is that, "The objective of an industrial system is to deliver goods and services to the whole of the individuals included in the Nation, or other corporate body, to which the system is attached, with the minimum amount of trouble to those individuals." A deduction from this definition is that on its economic side, a nation or other corporate body exists to further the interests of individuals; or, to put it in a more technical form, there is an increment of association derived from the co-operation of individuals, which should be distributed amongst the individuals, if the object of their co-operation is to be achieved successfully.

The third conception which I wish to impress upon you, is that of the artificiality of money. The best definition of money with which I am acquainted, which is an orthodox definition, is that of Professor Walker in his book *Money, Trade, and Industry*, which reads that money may be defined as "any medium which has reached such a degree of acceptability that no matter what it is made of, and no matter why people want it, no one will refuse it in exchange for his product." I have no doubt that you will accept this definition, and you will see that it eliminates any specific physical characteristic from the nature of money. It may be gold, silver, copper, cowrie shells, leather discs, paper, cattle, or slaves; and every one of these has in turn been used for money. The one characteristic that they had in common was a psychological characteristic, that of belief, faith, or credit, and if you will bear this conception clearly in your minds you will recognise the absurdity of such statements as are frequently heard to the effect that there is no money in the country, or that certain desirable works cannot be carried out because there is no money with which to do them. Such statements, of course, receive credence because they are normally true in respect of the individual, who has a very limited power to impose his own personally created money upon the community, but they are not true of nations (as was amply demonstrated between August 4th and August 7th, 1914, when an absolutely novel currency system was imposed upon Great Britain without the slightest shock), and we shall see almost at once they are not true of large corporations, and particularly are not true of financial institutions.

I suppose that we are all familiar with such phrases as "The Power of Money," and others to the same effect, but the Government by Money to which I wish to draw your attention tonight is something much more concrete than that. Our thoughts of governments usually range over such subjects as Houses of Parlia-

ments, laws, and at the other end of the scale, policemen. But you will at once agree, I think, that this sort of government is largely negative, and is almost entirely concerned with telling you what you must not do. Even in these law-ridden days, after the long-suffering citizen has taken out about eighteen licences of various sorts to permit him to move about, to stay still, to listen-in, and so forth, he does not come very much in contact with the law. But from the moment that he arises in the morning to the moment that he goes to bed at night, or, more comprehensively, from the moment that he draws breath to the moment of his death, and after, his activities are governed and limited by the money system. His clothes, his food, his house, his education, either in the more literal sense or in the broader sense of ability to travel and see the world, his avocation in life, and the rapidity with which he progresses in it, are largely matters of money, and very often nothing but money. Further than that, a lack of money, if sufficiently pronounced, is pretty certain to bring him up against either the legal system, or starvation and death, and it is in no sense an exaggeration to say that in all civilised countries (so called), and the more civilised the more true is the statement, the individual lives entirely by grace of the money system.

Any system or institution which is so all-pervasive in its effects, is a government, whether conscious or unconscious, and one would imagine it to be a matter of the first consequence to understand the principles upon which it is based. So far from this being the case, however, a very large number of people regard it as almost a matter for pride that they know nothing about finance, and if my own experience can be taken as a guide, any exact knowledge of the general system is confined to a number of persons in every country who might be numbered on the fingers of both hands, a lack of knowledge only paralleled, unfortunately, by the confidence with which the existing system is regarded by those who do not understand it. It is, in fact, one of the most astonishing experiences which comes to anyone who seriously interests himself in these matters to find the perversity with which intelligent people will put forward any explanation, on earth or off the earth, from sun spots to the viciousness of human nature, for the economic misfortunes which attack nations and individuals, rather than question or allow to be questioned the practical perfection of the money system.

Clearly, if money is of such importance, the first point to which to direct an inquiry in regard to it must concern its point of origin, and it is one step towards this end to recognise the fact that *you do not make money by making goods or by working*. Some years ago I made this statement at a luncheon of quite important manufacturers in the North, and only their politeness to a guest obviously restrained them from considerable hilarity. I then asked them to imagine themselves doing business with each other round the table at which we sat, and to explain to me how it was possible that at the end of a given period of such business there could be more money round the table than there was when they started. Naturally, nobody could tell me. Similarly, you do not make money by agriculture. If I grow a ton of potatoes and sell them for money, I merely get the money that somebody had before in return for my potatoes, and the coming into existence or the disappearance by consumption of those potatoes does not itself make the slightest difference to the amount of money in existence; it merely affects its distribution. If anyone wishes to argue that it cheapens potatoes, I would merely point out that such cheapening makes every grower or holder of potatoes poorer, and discourages the growth of potatoes.

That is the first step. The second step to realise is that only to a very limited extent does money proceed from the State. Roughly speaking, there is in Great Britain something over 350 millions sterling of legal tender—paper, gold, silver, and copper—and the Bank clearance for 1924 of the Joint Stock Banks amounted to about 39,000 millions sterling in round figures, or more than 100 times as much. So that we have ascertained (*a*) that purchasing power or money does not proceed from the individual or corporations which produce or grow goods, and (*b*) it does not proceed from the State to any considerable extent. (I do not dwell on gold because the amount produced is trivial in comparison with other sources of purchasing power.) The matter is so important that I shall ask you to bear with me while I explain exactly from where it does proceed, but I will preface this explanation by a dogmatic statement from a recognised authority, Mr. McKenna. The Chairman of the Midland Bank, at its annual meeting in 1924, made the following statement: “The amount of money in existence varies only with the action of the banks in increasing or diminishing deposits. We know how this is effected. Every bank loan and every bank purchase of securities creates a deposit, and every repayment of a bank loan and every bank sale destroys one.”

Imagine a self-contained community, say, upon an island, of ten men, each of whom has £10, we will say, in Treasury Notes. The community carries on all the operations of a modern business community, and

settles its debts by handing over Treasury Notes. After a time an eleventh man lands upon the island and makes the suggestion that he should safeguard the money of the community by keeping it in a burglar-proof safe with pigeon-holes for each of the depositors. This is thought to be a good idea, and for a time the original members of the community settle their debts to each other by going to the eleventh man, whom we may call the banker, drawing out Treasury notes every morning and handing them over to each other. It naturally dawns on the business community very soon that this is a cumbersome and time-wasting performance, and an efficient substitute for it is found by writing little notes to the banker instructing him to readjust the contents of the pigeon-holes to correspond with the business transactions of the previous day. In a very short time the banker finds that very few of his Treasury notes have left his possession, and that his business has become a bookkeeping one, of which the original documents are the trader's note or cheque. When this condition has become established, Trader No. 10 finds that he could accept a larger order for goods, to be paid for on delivery, if he could see his way to pay for labour and material between the time that the order is accepted and the time that the goods are delivered and paid for. He has no exact knowledge of the amount of money on the island, but he knows that it is practically all with the bank, so he goes to the banker and suggests that the banker should lend him £10, in addition to the £10 that he has himself. The banker agrees, on terms which are immaterial to the argument, and Trader No. 10 is in a position to draw £20, where previously he could only draw £10. The crucial point to recognise is that the banker does not inform the other nine depositors with him, that owing to the fact that No. 10 has drawn £20, they must draw less in consequence. In other words, his liabilities to the other nine remain as before, but his liability to No. 10 is increased by £10, therefore, the banker's liability to the community instead of being £100, which was the total amount that they deposited, is £110; and £10 of absolutely new and effective money has been created by this process, and can be drawn, so long as it is not all drawn in Notes. But it must be remembered that this £10 of new money, which is an effective demand for goods and services, and has been *created* by the banker, has only been loaned, and therefore it may be said that the banker has created an effective demand of £10 on the goods of the community. Just as effective as if he had forged or printed £10 in Treasury Notes. The repayment by Trader No. 10 of the £10 has the curious effect of cancelling both the debt registered in the books of the banker (and which the banker treats as an asset), and the £10 with which it is repaid, and the net result of the transaction (assuming the £10 to have been used for productive purposes) is to leave £10 of price values in existence in excess of the possible effective demand of the community. There is only one possible way in which the community can buy these goods, and that is by the creation of a fresh credit, or the printing of more money.

Now it must be obvious that this process gives those in control of it absolute control of the economic situation, and what is perhaps of even greater importance, this control is fundamentally dependent on a scarcity of money, and consequently of purchasing power. Individuals must use economic products, and they can only obtain those economic products by the means of money. If they are short of money, terms on which they obtain money can be imposed upon them; if they are not short of money those terms cannot be imposed. *And it therefore follows that the existence of a money control necessitates a condition of economic scarcity, quite irrespective of the advances of scientific progress or productive capacity,* and restricts economic production within the limits imposed by restricted money demand. For the moment I would merely emphasise that you cannot reward or punish individuals by the granting or withholding of something of which they already have a sufficient supply, and that the excessive production of what are called capital goods, i.e. goods which are not used by individuals for personal consumption (which is a marked feature of present-day industrialism) is caused by the desire to keep the population at work without allowing them to obtain such control of their economic existence as would free them from the dominance of money.

The scarcity of money and the consequent restriction of effective demand is unquestionably the most important, and in fact, the vital point on which the future of the present financial system turns, and such questions as that of the Gold Standard, for instance, are only important to the extent that they buttress this restricted effective demand. I have endeavoured to show you, so far as the limit of time imposed upon me allows, that a scarcity of money as distinct from a physical scarcity of goods, either actual or potential, is an essential feature of the hidden Government by Money. But it is also necessary to understand exactly how this disparity between the amount of goods available and the amount of money with which to buy them is produced. The general principle may be fairly briefly stated. Let us imagine a shipbuilder receiving an order for a ship to cost £1,000,000, and let us suppose, as would most probably be the case, that on the basis of this order the shipbuilder borrows £500,000 from his banker. I would emphasise that this borrowing from

the banker as compared with the provision of the sum out of the resources of the shipbuilding undertaking, does not materially alter the general principle, but it makes the explanation somewhat easier. We will suppose that £100,000 is paid away in wages during the building of the ship, and that the remainder represents payment for material and for various charges which are known in technical language as overhead charges. Eventually the ship is completed and is handed over to the purchaser, who we will imagine to be the public, for £1,000,000 in the form of a cheque. £500,000 of this money is handed over to the banker in repayment of the loan which was created, and which was new money. The banker applies the £500,000 to cancel the loan, i.e. both the £500,000 and the debt against the shipbuilder disappear simultaneously as if they had never existed. You will see quite clearly, I think, that a ship priced at £1,000,000 exists, but the equivalent purchasing power in respect of this ship has not merely changed hands, half a million of it has absolutely disappeared. It will be found, upon examination, that even this remarkable result is not a full statement of the position, but the general principle involved is made clear by it.

The technique by which this general principle operates in daily life is naturally much more complicated. One outstanding example of it is in the redemption of the National Debt. I find from reference to the monthly Review issued by Barclays Bank for the current month (May) that during the past five years nearly £750,000,000 (collected by taxation) has been applied to the reduction of the National Debt. Every penny of this represents a deficiency between the collective prices of articles available for sale and the available purchasing power for those articles, although it is quite true that many of the articles, in respect of which the debt was created, no longer exist. Exactly the same comment is applicable to the enormous sum placed to reserve, depreciation, etc., by practically all large industrial companies. These sums are earned, as the phrase goes, by the sales of goods to the public, and, consequently, must appear in the price of those goods. If they were not applied to reserves and so forth in accordance with what is called "sound finance," they would be distributed in dividends, and would be available as purchasing power. They are not so distributed, and therefore are not available as purchasing power, and do, in fact, ultimately go to the redemption of loans, in one form or another, which loans have inevitably appeared in the price of the articles produced. I would particularly ask you to notice that the difficulty is an arithmetical difficulty. If you are going to ask the consumer to pay for depreciation, etc., you must give him the money with which to pay, which you do not do at present.

From this disparity between purchasing power and goods available arises almost every material economic ill from which the world suffers today, including in that category the imminent risk of devastating wars. The so-called unemployment problem is not a problem at all, but a direct result of scientific methods applied to industry; becoming an economic and political menace of the first order because unemployment carries with it a failure in economic distribution. The multiplication of the category of criminal offences, from cocaine-running to "long-firm" frauds, can be directly and solely traced to a deficiency of purchasing power and the vital necessity to expand it, honestly if possible, but to expand it anyway. One of the gravest features of the situation is that the type of mind which is inherently unfitted to appreciate and function successfully under the environment which would be created by modern science if it were unhampered by finance, is, under the present financial system, put in possession of executive authority, and in consequence in a position to block any attempt to modify the situation. There is nowadays no such thing as an independent "statesman." No politician can hope to attain high office except by permission of Finance; and the corruption and jobbery in high places, although only a symptom of a defective system, are almost becoming a disease fatal in itself. I cannot claim to be an authority on Biblical lore, but I remember that prophecy deals with the doing away with "the abomination which maketh desolate." I have very little doubt that that is a brief description of modern finance.

You will, no doubt, wish to inquire what proposals can be made to remedy this state of affairs. Let me say at once that, at any rate, by itself, the nationalisation of banks is no remedy. It is, in fact, very questionable whether the nationalisation of anything is a remedy. Nationalisation is an administrative change, and in most cases is an administrative change for the worse, because, at any rate, in the forms in which we know it at present, it involves a highly centralised form of administration, and separates authority very largely from the facts of the situation with which authority ought properly to deal. But whatever views one may have about systems of administration, the essential point to recognise in regard to finance is the question of the *beneficial ownership* of public credit, whether public credit be administered under a decentralised or private system of administration or by a public authority. To put this matter in a more

concrete form, the question at issue, fundamentally, is whether, when a banker creates and issues a loan he should be repaid (which assumes that the loan belongs to him), or whether he should not be repaid (which assumes that credit is a public asset). That is the simple and fundamental issue of this controversy, and upon the answer which is given to it, in my opinion, the present civilisation stands or falls. But although the fundamental issue can be thus simply stated, the practical methods of carrying out changes based upon it are not so simple and obvious. A clue to them may be obtained by considering the analysis to which I have devoted some of your time tonight. The fundamental defect, as we have seen, in the present financial system is that it produces a disparity between available purchasing power and collective prices for goods for sale, and the disparity may be eventually traced to the existence in prices of sums of money which were created by bank loans and which have subsequently been cancelled without being cancelled in the prices of the goods. The remedy which is obviously suggested by a consideration of this situation involves the cancellation of these credits in *Prices*. One perfectly practical method by which this can be done is as follows:

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 percent. 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 percent 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 percent, 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 percent 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.

The justification for the issue of the Treasury Draft is found in the increased real credit of the community, which accrues from the increased trade which is assured by the lowering of prices. I have, of course, used the figure of 25 percent for purposes of illustration, but I may say that in 1919 I conducted a somewhat elaborate investigation into this matter, and I arrived at the conclusion that the true discount to the consumer was very much nearer 90 percent than 25 percent, to obtain the result which I have just been outlining. It was agreed, at that time, that the result was too startling to be let loose on a somewhat sceptical public. As a result of the immense trade depression, the enormous number of bankruptcies, and the general depreciation in the real credit of this country, which has taken place between the year 1919 and the present, as a result of the financial policy imposed on this country by bankers, it is quite possible that the true discount to the consumer would now be fairly represented by about 35 percent to 45 percent. I have no doubt whatever that, should some arrangement of this nature be put into operation, the real credit of the country would rise so rapidly that it would be possible to reduce the price to consumers of articles to a very small fraction of that existing at present, while at the same time enhancing the prosperity of all producers.

IX

THE INESCAPABLE CONFLICT

I

IN a recent issue of *The New Age*, the editor brought to the attention of his readers, perhaps semi-seriously, the predictions of "Old Moore" in regard to the coming year. The predictions are based on astrological considerations.

It will be fresh in the memory that the *Morning Post*, during the early part of the year, published, presumably at advertisement rates, a lengthy series of articles on the Great Pyramid predicting, at more or less similar periods, a state of crisis similar to that to which the astrologically minded might also point.

My knowledge of these matters is not either quantitatively or qualitatively sufficient to express an opinion upon them. I should certainly not accept their predictions as a basis of action without further knowledge. At the same time, I do not think that our knowledge of the real nature of the universe in which we live is anything like sufficient to justify ridicule in regard to any theory which has not been very fully investigated. In any case the predictions in question could hardly be further from the truth than those of our statesmen and bankers.

Having said this, I must confess, however, that I am impressed, as no doubt many other people have been impressed, by the fact that such apparently unorthodox prophecies seem to point to the occurrence of a world crisis at very much the same time as that which some ordinary statistical and political knowledge would suggest. For instance, Sir George Paish some time ago prophesied a financial crisis in the spring of 1929. I have myself always suggested that the financial system would encounter difficulties about the end of the decade. The complications which seem likely to attend the election of a new President in the United States of America, and the almost synchronous election of a new government in this country, the resurrection of problems arising out of the Treaty of Versailles and the Dawes scheme, together with the well-nigh unbelievable political situation in Italy and Russia, all point towards a world situation not less problematic than that which is obvious in the internal policy of nearly every country, not excluding Great Britain.

It will probably be agreed that some idea of the lines of demarcation in this situation would be helpful to those who take it as seriously as I, at any rate, think it should be taken. In the first place it is obvious enough that mere national labels will not help us much. The problems which confront the world are not primarily geographical. So far as anyone adjective will describe them, they are fundamentally cultural. That is to say, they relate to objectives, to ideals of life and its uses, and the conditions under which individuals will co-operate to reach these objectives.

To make this clear let us examine the reaction which is becoming evident to the first of the propositions which *The New Age* has put forward—that finance is the mechanism which controls policy in the modern world. After ten years of derision, denial, boycott, and misrepresentation, this proposition has now been fairly generally accepted, even by the Labour Party. In their recently issued supplement on policy this Party proposes : (1) The control of the Bank of England by a public corporation containing representatives of such essential factors in the community as the Treasury, Board of Trade, Industry, Labour, and the Co-operative Movement (!). (2) The extension of existing banking facilities to people with small means by the spread of municipal and co-operative banks throughout the country. (3) Such changes in the banking and financial system as will secure that the available supply of credit *and* of *savings* shall be used for enterprises of national advantage, as distinct from those that are useless or socially injurious, and an inquiry into the best method of achieving this purpose. (4) The carrying out of the Genoa Conference proposals of 1922 for the regulation of the value of gold by international agreement. It comments: "An extension of banking facilities for the workers would facilitate small savings."

All of these objects, it might perhaps be remarked, are not worth five minutes' effort on the part of anybody, even if, as is not the case, they would result from the steps proposed. The interesting point to me,

at any rate, is that they assume a culture of a repellently Puritanical nature, without admitting that this culture is in itself suspect.

It is not my object to examine at any length the supplement in question, but it will repay study as indicating the point I wish to make, which is the determination exhibited, not less by the Labour Party than any other, to use any and every means to subordinate the individual to the group. A far-seeing writer, a long time ago, said that "the eyes of a fool are upon the ends of the earth." It is this species of folly which animates men who, while unable to solve the problem of giving the individual worker a decent existence, are only willing to try their hand with the financial problem if it is considered as a world problem and not as a domestic problem, just as, while unable to resolve the differences in any one industry such as the coal industry, save by recommending their continuous enlargement, problems of the magnitude of world-wide peace, disarmament, and foreign relations have not appeared to present any difficulties to them.

Now, I do not believe for one moment that the majority of the individuals who belong to the Labour Party, or any other Party, are congenital idiots, as the utterances of their leaders might lead one to conclude. But neither do I believe that it is an accident that the accredited spokesmen of the Labour Party utter this peculiarly vicious nonsense. They are, in my opinion, assisted to attain and to retain their leadership because of their ability to foster and manipulate a characteristic which is essential to the dominance of the group over the individual. The characteristic which I have in mind is that which I have on various occasions called abstractionism. The theologians call it idolatry.

I should define idolatry as the practice of taking some object or virtue, and without understanding or even trying to understand its true nature, investing it with attributes which do not belong to it. It is, I think, a characteristic of immature intelligence and at first sight would not appear to be a serious matter. But it is, in fact, the very devil.

To explain what I mean, let us return for a moment to the recommendations of the Labour Party's Supplement. Consider as an example the remark that "the extension of banking facilities for workers would facilitate small savings." We have here a typical instance of idolatry. Saving is put forward as a virtue in itself, and we can only conclude that those responsible are either without any understanding of the true nature of money saving, or are influenced by that attribute of idolatry which makes it so dangerous that it delivers its victims bound hand and foot to any unscrupulous interest which sees through the delusion.

The line of demarcation for which we are in search consists then, in my opinion, not so much in the particular abstraction or idol to which a nation or party is committed, but rather between the idea that it is possible to say that such things as thrift, work, discipline, sobriety, and, in short, the complete pantheon of the austere virtues, can be said to have an absolute existence, and are, as a consequence, susceptible of imposition on large masses of individuals to their benefit, or whether, on the other hand, such abstractions require individual incarnation, and are insusceptible either of general definition or mass application.

This division may seem to take us a long way from the immediate issues of contemporary politics; but I believe it can be applied with some measure of success to the estimation of the forces aligned for the coming struggle.

II

Before applying the test of idolatry, or abstractionism, for the purpose of obtaining an idea of possible national groupings, it is desirable to consider the relationship of ballot-box Democracy to it.

It is evident upon cursory consideration that if the mechanism of democracy, as at present understood, is accepted as a method by which peoples are to be governed, it is certain that they must be governed by abstractions. In order to get, let us say, fifty million persons to vote upon any subject, that subject must be a wide generalisation. Further than that, it must be a generalisation susceptible of about fifty million interpretations, to make it accord with the private views of each of the fifty million voters. This is exactly what happens in a modern democracy. An election is held upon some abstraction which may be labelled "Chinese Slavery" or "Safe-guarding," or practically any other subject which the average elector may be

safely trusted not to understand. So long as he votes, it is probably not of much importance what he votes for. It is, however, vital that he should vote in order to keep up the illusion that he is controlling his own destiny.

Having voted and duly elected a body of representatives, pledged to the furthering of some wide generality, the way is left clear for a dictatorship, either of finance or administration, to interpret the generalisation in terms satisfactory to itself.

Now, it must be observed that this subservience of ballot-box Democracy to some kind of a dictatorship is inherent, and it is indissolubly connected with the idea that the relationships of different individuals to the same situation are similar. It is consequently a system of government depending for any workability it may possess upon an electorate possessing a low degree of individualisation. If it be applied to the animal world one can imagine a successful election on the subject of the most satisfactory dog biscuit. An election amongst Frenchmen upon the question of, let us say, an omelette or a beefsteak as the only article of diet, would, however, probably show signs of dissolving in disorder.

Applying this conception to the political and international situation, it is easily seen that certain factors start out into relief. There is, for instance, probably no country in the world where the politics of the ballot-box are taken so seriously as in the United States, a country containing, together with many highly developed individuals, a considerable majority of the type immortalised by Sinclair Lewis in *Babbitt*. Similarly, the Socialist Party in this country and elsewhere naturally assumes the fundamental soundness of decisions arrived at by the counting of hands, because, as I understand it, the Socialist Party does not recognise any important difference between any one individual and another. The United States, as a world force, and Collective Socialism, as a world movement, widely different and superficially antagonistic as they may appear to be, have yet this in common with each other, and with dictatorships of the Russian and Italian type, that each arrogates to itself the position of a "moral" leader, and is fundamentally sympathetic to the idea of an abstract morality. For instance, Mr. Snowden, the Socialist Chancellor of the Exchequer, in the *Banker* for May, 1927, remarks of the Bank of England (an institution perhaps responsible for more economic misery than any which has ever existed) that it is "perhaps the greatest moral authority in the world."

It may be suggested that it is as arguable that the relation of one individual to a given situation is similar to that of any other, as is the converse. But apart from any theory on the matter, I think we are in possession of important evidence to prove that the trend of evolution is towards Individuality, and that Individuality demands its own unique relationship to circumstances. There probably never was a time at which such conscious effort was being made to endeavour to make people think alike. We have a syndicated Press, selecting and adapting the news of the world to suit a unified policy. As a result there never was a time since the invention of printing when people paid less attention to the opinion of newspapers. On the whole, so far from the modern newspaper impressing its views upon its readers, its influence varies almost directly in proportion to its absence of evident bias, which is another way of saying that it varies as it represents the opinion of some individual, rather than the machine-made policy of some large interest. Similarly, there never was a time in which the mechanism of Education was so centrally controlled as at present, and there probably never was a time in which the revolt against orthodox, uniform, or machine-made teaching was so active and widespread.

It is impossible to consider these matters with any seriousness, however, without realising that there is a force, which may be conscious or unconscious, which definitely resists the evolution of the individual. Ranged with this force at present are all those influences which may be described by collective terms such as "Industry," "Labour," "Capital," terms, in short, designating functions of the body politic. At the risk of straining an analogy, I think it is helpful in obtaining a just view of this situation to consider that, in the case of the human body, one function after another, after having engaged the sole attention of the individual, has been relegated from the main object of existence to that of an automatic function. Speaking under correction, I believe it is a biological fact that such a function as breathing, now practically automatic, was at one time almost the sole concern of prehistoric man.

If we imagine the function of breathing to resist this relegation from the centre of the human stage to that of a function, I think we get a just idea of the attitude to be adopted to these groups, which represent the functions of the body politic. It is a mistake to imagine that perhaps any one of them is fundamentally undesirable. They merely have to be put in their place as servants of the individual, in the absence of whom their existence is meaningless.

Nevertheless, this resistance to the emergence of the individual from the group is real and strenuous, and the conflict is daily widening in extent. Returning again to what is one of the main battle-grounds of this conflict—the United States of America—it is becoming evident that “Big Business,” Finance, and the “Machinery of Government” are enlisting forces which a few years ago would have been regarded as extinct in the Middle Ages. “Fundamentalisms” of a crude form, which would have provoked a smile in the theologian of the fifteenth century; “Moral” laws, which would have been resented in the time of the Tudors, and an organised system of Commercial Espionage and Blackmail reminiscent of the worst days of the Inquisition or the Star Chamber, exist today side by side with an exaggerated individualism, far removed from genuine individuality. On the other hand, there is a not inconsiderable minority, possessing great and increasing influence, which is thoroughly alive to the issue. But it does not, I think, control United States foreign policy.

III

It is necessary to remind ourselves of the nature of the circumstances which provide the raw material of conflict.

The world, at the present time, operates under a financial system which is in essence a bookkeeping system controlling the necessities of life. This bookkeeping system produces an illusory necessity for an excess of exports over imports in the case of every industrial nation, the penalty of failure to increase this balance of exports over imports being an increasing unemployment problem.

This situation is mathematical in origin, and, as it were, merely provides a combustible background for an international conflagration without in itself selecting the nations involved. Proceeding from this situation, however, it is recognised that an aggressive psychology is an asset tending towards, at any rate, temporary success in this struggle for commercial supremacy, which is the polite term applied to the conflict. It follows fairly naturally, therefore, that a successful period of commercial expansion has a strong tendency to be accompanied by an aggressive attitude in Foreign Policy. It is probable that the causes of temporary commercial supremacy are for the most part adventitious. It is even more probable that commercial supremacy during the past 200 years has been susceptible of being fostered, and has in fact been fostered, according as the situation seemed to meet the interests of international financial organisations, such as the Rothschilds, Sterns, Schiffs, and others.

In spite of this, the incurable vanity of human nature, acting in conjunction with the cult of rewards and punishments, has assumed that such success was due to special virtue on the part of the successful, with results which were plainly visible in the attitude and manner of the pre-war Prussian, and are becoming noticeable in the national attitude of the United States. They were, perhaps, not absent from the outlook of Great Britain prior to the South African War, and were noted and embodied in Mr. Rudyard Kipling's *Recessional*, written in 1897.

It is well understood nowadays that the actions both of individuals and of nations tend to bear an inverse ratio to the high-sounding morality of their protestations. We all instinctively feel for the safety of our small change when in the companionship of someone who loudly protests his honesty, and it was not accidental that the smug complacency of the Exeter Hall period in Victorian affairs coincided with some of the most questionable passages of nineteenth-century British policy.

It appears to be a concomitant of this peculiar state of mind that the sufferer is blind to the real nature of the actions which accompany it, and it is in character for the United States, which is going through this phase, to insist, as she is insisting, on being the sole financial beneficiary of the European War, while pro-

testing through her chief spokesman, Mr. Coolidge, that the United States received nothing but spiritual benefit from the victorious peace.

To impugn the sincerity of an utterance of this character is irrelevant to the situation. What is needed is appreciation of the fact that certain developments of what may be called a pathological condition are to be expected just as surely as spots on a sufferer from measles, unless the disease is checked by the removal of the predisposing environment.

In the case of Great Britain, the result was the South African War, from which it is possible that we learnt a lesson which assisted in saving us from a final and irreparable collapse.

However this may be, the world appears to be faced with the following situation. There exists, in the United States of America, an organisation commercially successful to an extent which has not previously been attained. It appears from recent pronouncements in regard to debts and other matters, to be controlled by influences exhibiting those characteristics of an abstractionist nature, which seem to accompany a rapid rise to affluence. This psychology, controlling immense resources alike of men, materials, and finance, is superimposed upon the mathematical situation to which reference has just been made.

It seems to me that only self-deception can blind us to the fact that given these circumstances there can be only two alternatives. One is the subjection of the rest of the world to the United States, a subjugation which must be not only commercial, political, and financial, but cultural. The alternative is conflict between the United States (no doubt allied with those forces sympathetic to her policy) and the remainder of the world which is unwilling to accept her suzerainty.

Conspicuous among those whose psychology is antipathetic is, I think, the Frenchman: and, in my opinion, Sir Austen Chamberlain, in remarking at Toronto in a recent speech that France and Great Britain held the key of the international situation, enunciated an important truth.

The French temperament is probably the most coldly logical and realistic of any well-defined type, and the abstractions on which, for instance, the United States claim monetary repayment for munitions used by France while fighting in the absence of American troops, while such a claim ceased when the same munitions in the hands of American troops were applied to the same end, produce upon the French mind a strong feeling of irritated impatience. With France, both from sentimental and economic motives, I think we can associate Spain, and Latin America, with the possible exceptions of Brazil and Peru. In the East the sympathies of Japan are well known.

On the other hand, Italy, and possibly Russia, under its present control, and under certain circumstances Germany, would appear to range themselves naturally upon the other side.

This roughly might be expected to be the alignment in any conflagration which may be precipitated during the existence of the present state of affairs in the principal countries of the Eastern and Western hemispheres. It is, however, to be remembered that the real divisions in the world at the present time, while still to some extent vertical and national, are also horizontal and international. There is, moreover, little doubt that ultimately this horizontal division (which, it should be plainly understood, is not what is commonly called a class war, but a cultural war in which the contending forces on either side will be recruited from every class) will become preponderatingly important.

THE CONFUSION BETWEEN MONEY AND WEALTH, AND ITS RESULTS

An Address delivered in Tokyo, Japan, on November 5th, 1929.

IN the sacred book of the Christian religion occur the words, "The love of money is the root of all evil." These words, like those of the sacred books of other religions, have been twisted out of their proper meaning, but, properly understood, I think they are a key to one of the greatest problems which confront humanity.

I would particularly ask you to note that it is not said that the "love of wealth or the love of goods is the root of all evil," but because of the fact that money and goods under our present financial arrangements are interchangeable, a curious idea of a pseudo-moral nature has arisen and has, I think, been fostered, that while it is in the highest degree virtuous to work hard at industrial or economic tasks, it is less commendable if not actively vicious to betray any interest in the outcome of our labours.

Some time ago there was published in England a book with a title, *The Sickness of an Acquisitive Society*. It was written by a distinguished sociologist, and if it meant anything at all it meant that people ought not to expect or desire to get what they work for. The same idea is involved in the Socialist and Communist attack upon the idea of profit, as being the root evil of our existing society.

It seems to me that it ought to be evident to anyone of ordinary common sense that the root motive of human nature and the mainspring of human advancement is profit. We never do anything sensible, unless it will be of advantage to us in some sense, and to say that the principle which is patently advantageous on all other planes of activity is vicious on the economic plane seems to me to require very clear demonstration before it is accepted.

Yet the fact that this idea has received much general acceptance ought to suggest to us that there is some warrant for it, and I think that warrant can be found in the belief that we can only pursue our own economic advantage at the expense of our neighbour.

Economic advantage to the ordinary man means money advantage, and he has the idea, if he thinks about the matter at all, that there is only just so much money in the world, and if one man has more than the others must have less. The complete Socialist and Communist philosophy is founded on the fallacy, for it is a fallacy, that the poor are poor because the rich are rich.

I will state the true case at once, and then attempt to give you a slight non-technical explanation of it.

The poor are poor not because the rich are rich, but because there is not enough *money*, or, more correctly, purchasing power, to make the poor rich, or even comfortably well off, even if the whole of the money possessed by the rich were taken from them and equally divided amongst the poor. The result of attempting to enforce the latter policy, and such an attempt is being made in many countries today under the stress of public pressure and democratic politics, is merely to accentuate the difficulty and still further to increase the grip of the financiers since the distribution of purchasing power, largely through the agency of wages, depends to a considerable extent on the buying of articles which would not be produced at all if the existing amount of money were equally divided, since no one would have enough to buy articles which may be said to be above the most mediocre standard of living.

In an address of this description statistics are only apt to be confusing, but I might mention that it has been calculated that the average income per family in Great Britain, if all incomes large and small were pooled, would be under £200 per annum, or Y2,000.

Now although both recent theory and existing statistics are amply sufficient to prove that the total effective existing purchasing power in any modern industrial country is surprisingly low and would not be materially increased by the elimination of the rich man, it is not at all true that there is in normal times any scarcity of *goods*. There is perhaps no industrial country at the present time which is preoccupied with the

problem of how to fill orders which it receives for goods. On the contrary the problem which is agitating not only Japan but almost every other country is how to get orders for more goods and how to dispose of the goods which it has. Unless we are to assume that no one wants any more goods then it is patently true that lack of money is the reason for lack of orders. Nor is this all. The existence of a serious and increasing unemployment problem, measured in terms of human units and a similar unemployment of productive plant and materials, must mean that the extent of the goods which could be produced, if there were a satisfactory demand for them, is considerably in excess of those which are produced.

If you have followed this rather elusive argument so far, you will see that we have come upon a discrepancy between the amount of money, which the ordinary man regards as wealth, and the available amount of goods which are the only thing which really make money of any value.

I include for the sake of simplicity under the term of goods what are commonly called services, such, for instance, as railway transportation and other amenities of these and other kinds.

Having got it firmly fixed in your minds that while to the ordinary man there is no wealth without money, and yet that there exist either actually or still more potentially enormous quantities of wealth, for which there is no equivalent amount of money, I should like to bring to your attention another simple, apparently obvious, but very frequently overlooked fact, and that is that you do not make money by making goods. In other words, the industrial system, which makes goods, is not to blame for poverty—it is the financial system.

If a man grows an acre of rice, there is a hazy idea in most people's minds that in some mysterious way he also grows the money with which to buy an acre of rice, but as a matter of fact if he is fortunate in selling his acre of rice he only gets money which somebody else had before him, and there is no fresh money involved in the transaction as a result of the growing of the additional acre of rice.

That this is so is of course proved, if proof were necessary, by the fact that the result of a very abundant crop of rice or wheat is, not infrequently, to ruin the growers, since the amount of rice or other grain may be so large that the price drops to an unremunerative point.

If you will bear this simple but very important idea in your mind you will rapidly get a much clearer idea of the real nature of money, and I think that for ordinary purposes the simplest and most satisfactory conception of money is that it is simply a ticket which enables the holder to obtain goods and services upon demand, a ticket not differing in essence from a railway ticket, but having a wider application.

Let us now endeavour to summarise the position to which our argument has led us. Large numbers of people in the world are still poor. Most people are not so well off as they would like to be. On the other hand, the industrial system, so far from confessing that its productive resources are strained by the demands made upon it, is constantly bewailing the fact that not enough demands are made upon it, or to put the matter in the simplest language, its problems are selling problems, not productive problems. We have, further, obtained the conception of money as being simply a ticket system, and it has never been suggested that there was any serious difficulty in producing tickets if a use could be found for them. So that rather than look into the productive and administrative systems for the failure of modern industrial civilisation to meet the demands and expectations of the general population, we seem to have sufficient justification for looking quite elsewhere, and that is into the money system, or, as it is commonly called, the financial system.

A little while ago I said that you did not make money by making goods. It is astonishing, when we consider the importance to every one of us of money in our daily life, that most people have no conception of where money comes from beyond a hazy idea that a certain amount of it is dug out of the ground in the form of gold, silver, and copper, and the rest of it is printed and issued through a Government department. But as a matter of fact money in this form only bears a very trivial relation to the amount of available purchasing power, insufficient as the latter has been stated to be. The total amount of money in circulation, in the form of gold, silver, copper, and paper coinage is, in Great Britain, only about one percent of the total amount of bank clearings, or less than 10 percent of bank deposits, available to be drawn on for purchasing

purposes. What is the remainder? It is what is called bank credit, and for the purposes of this address it may be defined as the willingness of a bank to cash cheques drawn upon it.

Now if there is only 10 percent of the total money which is available existing in the form of gold, silver, copper and bank notes, it is quite obvious that the remaining deposits must be made in some other way than by merely depositing gold, silver, copper and bank notes in a bank. They have been made by bankers themselves. I do not propose to enter into the technique of this tonight, beyond merely giving you a short phrase which indicates the complete explanation, a phrase which I have borrowed from the speech of Mr. McKenna, the Chairman of the Midland Bank of Great Britain, the largest bank in the world. Mr. McKenna's phrase is as follows:

“Every bank loan creates a deposit and the repayment of every bank loan destroys a deposit.”

Now several very curious, not to say serious, and far-reaching consequences arise out of the situation which I have been endeavouring to explain. To the ordinary man money is essential; it is the key to all the things he would like to have. For the most part the population obtains money through the agency of wages; and the first feature of the situation to which it is necessary to direct our attention, is that while there may be, and in fact is as a rule, a surplus of unsold goods, the wage-earning man cannot obtain these goods without making more goods, because he obtains his wages through the process of making goods. On the other hand the manufacturer of goods cannot see his way to make more goods until he has disposed of his existing stock, and his constant preoccupation is for what are called markets. When we recognise that this situation is common to all industrial nations we are at once upon the track of the true, and probably in modern times the only true, cause of war. Consider the position of a statesman under these conditions. There is not enough money in his home market to buy the goods which he can produce. On the other hand, if he stops producing he stops distributing wages and can sell no goods at all, since his home population has no money, so that he is obliged to look for foreign markets. No industrial nation will willingly afford him a market since its own problem is exactly similar to his. Consequently he must compete against other industrialised nations for those markets which are either not sufficiently industrialised or are politically too weak to resist economic exploitation. Sooner or later some one of the industrialised countries becomes more successful than the rest; the others are faced with an unemployment problem, and sooner or later the outcome of this situation seems inevitably to be war.

A second feature arising out of this situation, and mixed up with the common confusion between money and goods, is that statesmen and others threatened with this problem are almost inevitably driven to the advocacy of either wage and salary reduction or some other form of what is called deflation in order that the price of articles produced in the country may be a little lower than those of the competing countries, thus enabling, at any rate for a time, lower prices to be quoted for export purposes. Entirely apart from the humanitarian aspect of such a policy it overlooks the fact that such wage and salary reductions are a reduction of purchasing power and consequently a still further reduction in the available home market. It is not too much to say that 95 percent of the political and social evils existing at the present day arise directly or indirectly out of this shortage of purchasing power and not out of a shortage, either actually or potentially, of the wealth which money could buy.

You will no doubt be anxious to know if there is a remedy for this situation. There is such a remedy. It is not the easy one which might at first occur to you of merely printing more bank notes, since unfortunately that is a method which defeats its own end. The method is a technical one, and is not suitable for explanation to a meeting of a general character such as this in the time at my disposal. It consists in a simple adjustment by the use of the technique of credit of the relation between the average price level and the available purchasing power; and, under existing conditions, the responsibility for making this adjustment most undoubtedly rests with the banking system. I do not for one moment think or suggest that bankers as a class are other than men of the highest integrity. But I do recognise quite clearly, and I think it is increasingly recognised, that the existing situation places the banker in a position of such commanding advantage that he would be more than human if he endeavoured to inaugurate any alteration until considerable pressure had been placed upon him. The alterations which are necessary would not detract in the slightest degree from the available wealth of anyone, while adding to the available wealth of all, but it is futile to pretend that they would not detract from the power of the banking and financial system over the industrial system and society

in general— they would, and for this reason it will be necessary to exercise very considerable pressure on those who are in control of the banking and financial system before such modifications are made. For my own part, I think that if these persons could be brought to see the matter in the right light, they are from their experience probably best equipped to inaugurate the necessary changes smoothly; but if they are not, then these changes will have to be inaugurated by someone else, and in that process we shall all undergo considerable discomfort which might be avoided by the general use of a little intelligence.

THE SOCIAL CREDIT SITUATION

Speech at *The New Age* Dinner on March 23rd, 1929.

LOOKING round upon the world, and the grave difficulties in which its various peoples are still involved, it might occur to a superficial observer that proposals which make such large claims as a solvent for material difficulties cannot have made very much progress, or their results would be evident. But I think that such a comment would be misplaced. In the first place it has to be remembered that the proposals involve changes in mechanism, and that the results of them cannot become evident until these changes are actually made and in operation. We cannot, therefore, judge the condition of our interests in this matter in the same way that we might, for instance, comment on the progress of a building and say, "This, that, or the other storey of it is now approaching completion."

Nothing of this kind has so far been accomplished. It might even be said that the difficulties of the eventual builders of the structure on which our hopes are fixed have been materially increased during the last few years by the activities of those who do not desire that the existing building should either be replaced or altered. At the moment representative bankers of the world are meeting in Paris with the primary objective of riveting yet more firmly the chains of an obsolete financial system on the peoples of the world. It has to be remembered that antecedent to the actual construction work on any great project a great deal of hard work, and perhaps the hardest of all work, has to be done. The minds of the public have to be prepared, they have to be educated to see the desirability of the proposed work, plans have to be drawn, and a staff of workmen has to be marshalled in readiness for the concrete effort.

If we look at this aspect of our labour I do not think that it is necessary for us either unduly to blame ourselves or to be depressed at the progress which has been made.

Those of you who can take your minds back to the years immediately succeeding the European War, and who were interested in the problems of Industrial Organisation and the resolution of the friction between what are called "Employers and Employed," will remember that the thoughts of the world at large, to the extent that it was interested in these subjects, were obsessed by problems of administration. The Shop Steward movement in industry, which was the inheritor of the Syndicalist movement of the early days of the century, hailed the Bolshevik revolution in Russia as the incarnation of its own ideals. The more theoretical Socialists of the type of Mr. Sydney Webb and the Fabian Society in general were still holding the blessed word "Nationalisation" as a panacea for all ills, although the widespread experience of life under the multiplicity of Government Departments during the latter years of the war had, I think, effectively disillusioned the general public as to the virtues of this particular remedy.

When, therefore, *The New Age* and those associated with it announced with a firmness which their candid critics labelled as "cocksure" that the salvation of the world was not to be found in committees, soviets, or nationalisation, but that its difficulties arose from a defective financial system, and that these can easily be remedied without affecting the administrative relationships which experience has proved to be both satisfactory and effective, the announcement in the first place was received with about the same enthusiasm that would be accorded to it by the Elgin Marbles. But it is a testimony to the vital nature of the message that we have to convey, that this period of calm was of astonishingly short duration. Within twelve months, and for a period of two or three years, the proposals that we put forward received widespread discussion, not always conducted in an atmosphere of calm detachment, and even in that short period of time reduced the propaganda both of nationalisation in its old sense, and still more the committee system of industrial management, to the position of mere doctrinaire ideals.

So rapid was the progress made by these ideas between 1919 and 1923 both in this country and abroad, and so constantly did ideas derived from them appear in the pages of the Press, that the interests threatened by them became considerably alarmed, and took what were, on the whole, effective steps to curtail their publicity. In this country the Institute of Bankers allocated five million pounds to combat the subversive ideas of ourselves and other misguided people who wished to tinker with the financial system. The large

Press Associations were expressly instructed that my own name should not be mentioned in the public Press, and no metropolitan newspaper in this country or the United States was allowed to give publicity either to correspondence or to contributions bearing upon the subject. In spite of this the Canadian Parliamentary Inquiry at which I was a witness managed to expose on the one hand the ignorance of even leading bankers of the fundamental problems with which they had to deal, and on the other hand the lengths to which the financial power was prepared to go to retain control of the situation.

Perhaps as a result of this inquiry, the boycott of the subject became almost complete, and if such methods could have been effective there is no doubt that the agitation which we had initiated would have died away. But it has always been my personal opinion that the force on which we had to rely was not principally propaganda, but rather the awakening of public opinion, once it had been given the lead, to the explanation of the facts of the everyday world; and that awakening has taken place and is today taking place with tremendous rapidity. The process through which our idea went during the period 1918-23 might be likened to the sowing of the seed. It was thinly, but very widely, sown. During the last five years the seed has been driven underground.

Though you will see very little about *The New Age* or the Douglas Theory in the popular Press, you will see pages of criticism of the Bank of England, the Federal Reserve Board, and the International Debt Policy, and if you are sufficiently interested you will recognise phrases, and even whole sentences, extracted without acknowledgment from the "Notes of the Week," so ably maintained by Mr. Brenton.

It has to be remembered that, unlike the movements commonly called socialistic, which on the whole have been class movements, this steady growth of public opinion as to the vital part played by the financial system in the efforts of mankind is not confined to any one class. It is common ground with the industrialist, the farmer, the landowner, and even the stockbroker: the interest in it is growing daily. I believe most fervently that we are at the very threshold of an awakening which may well alter the history of civilisation. In the British Isles alone there are two political parties which consider Social Credit the core of their policy.

It is an easy process of reasoning from the recognition of the vital nature of the financial system to the apprehension of the part which must be played by the nation which is the most powerful financially.

Partly as a result of the war, partly as the result of the criminal ignorance of our own statesmen of the underlying principles of finance, and quite probably partly as a result of grandiose world-policy on the part of international organisations, the pinnacle of financial power since the war, and more particularly since the peace, has been achieved by the United States. Because I believe that the next ten years will be critical in the history of the world, and that the leading part in that crisis will be played by the U.S.A., I propose to detain you tonight with a short examination of the situation of that great power in its bearing on our particular problem.

No understanding of the critical situation of the United States in its relations to the outer world is possible without recognising the course its development has taken. At the beginning of the nineteenth century the North American continent possessed for all practical purposes two small populated areas situated on the Atlantic and Pacific seaboard, separated by three thousand miles of undeveloped and very rich continental land. Removed to a large extent from European interests, and from the political and social problems of an older civilisation, the United States contained within its own borders a practically unlimited field of what might be called "export markets." In other words, to use an Irishism, "it expanded internally." This unlimited field for the exercise of the industrial arts undoubtedly produced a rate of economic progress unparalleled elsewhere, and afforded a proof, if any were needed, of how intensely artificial are the restrictions upon progress of this description which normally fetter older countries obliged to seek for markets abroad.

The process of internal development had begun to slow up before the European War, but this event afforded a fresh impetus to development and at the same time educated the American public, whose insularity was previously very marked, to look abroad for markets. Passing over this period we find that 1918 left the United States physically unexhausted, and both financially and in a realistic sense immensely enriched by the struggle which had swept Europe.

Nevertheless, the same causes which had contributed to the tremendous expansion of productive capacity had also been operative in Europe, and particularly in Great Britain. In both hemispheres there was a post-war boom, in both hemispheres there was a period, beginning simultaneously in 1920, of severe financial deflation, and the unemployment figures in the United States were variously stated to be between six and ten millions. This policy of deflation has been pursued in Great Britain, and continues, with the result that unemployment has become chronic, industrial undertakings have been broken up, and the country at the present time is saturated with a spirit of defeat, such as the war was never able to produce. I shall return to this feature of the situation later.

In the United States, however, the policy of deflation was reversed within six months. Industrialists were encouraged to borrow money on easy terms, and the public, instead of being deafened with the insane cry of "consume less and produce more," was not only encouraged to buy, up to the extent of its resources, but was assisted to increase its resources by every device possible within the orbit of the existing financial system.

As a result the production of the United States in 1928 as compared with 1913 is 38 percent greater, while that of Great Britain is 30 percent less; that is to say, the absolute rate of progress of the United States is double that existing in this country. This state of affairs has been reflected in an immensely high standard of living. The average locomotive driver of an American railway owns two motor cars, one for himself and one for his wife, and thinks nothing of paying £40 for a radio receiving set.

As contrasted with the spirit of defeat which is prevalent in Great Britain, the normal citizen of the United States is confident that he has not only achieved success, and that his country is the greatest country in the world, but he is satisfied that this success will be cumulative, and that the old days of alternative boom and slump are gone forever. Whatever may be the eventual outcome of this situation, one cannot help feeling that our statesmen and bankers who are responsible (and without doubt they are responsible) for the extraordinary divergence between this country and the United States in the short space of eight years must sometimes be driven to wonder whether the "thirty pieces of silver" are on the whole sufficient compensation for the situation they have produced.

Out of this situation one clear and indisputable fact emerges. The American public has tasted material prosperity far in excess of that achieved by any other people at any time, and it is absolutely united in the determination that this prosperity shall continue.

No American statesman could last for one week if it became known that his policy stood in the way of this objective.¹

¹ This was written before the slump of 1929. Whether or not this slump was ultimately inevitable, it was most certainly brought about by Financial Interests acting through the Federal Reserve Bank, and the result was to discredit Mr. Hoover.

Now, for reasons which will be familiar to most of you here, it is inevitable that this continuous industrial expansion demands an increasing export market. It is also certain that the financial position of the United States under the existing conventions places its nationals in a position to impose foreign loans over an increasingly wide area, and that the inevitable effect of these foreign loans is to make it possible to impose American productions upon the borrowing country. Any slackness in this process would mean unemployment in the United States, and unemployment on a large scale would not be contemplated by either the political or industrial leaders. The unemployment, therefore, which is inevitable from the progress of the industrial arts will be imposed upon the commercial rivals of America, and in particular the British Empire. That is the situation with which the world is faced today. Its symptoms may be various and obscure, but, in my opinion, it is a disease of which the world may easily die. Its only cure is a radical reform of the financial system of such a nature as would remove the alternative of increased exports or penal unemployment.

Within the last month the new President of the United States has taken office. Mr. Hoover is an engineer of great capacity and with wide knowledge of the world. I think he is perfectly familiar with the problem as I have just stated it, and I think it is very probable that if he were a free agent we should witness a spectacular adjustment of the problem. But he is not a free agent. His Cabinet contains such men as Mr.

Andrew Mellon, the ideal of banking interests, Mr. Robert Lamont, also closely connected with banking, and Mr. C. F. Adams, Secretary of the Navy, closely identified with a big Navy policy. Their financial interests make it quite certain that the continued supremacy of the financial system will be their first care. In these circumstances we are faced, I think, with the situation provided by a country having both the financial power and the financial knowledge to carry out whatever policy will most conduce to the continued prosperity of the existing financial system. That policy inevitably must be a pan-American policy and a policy of continual and accelerated commercial expansion.

What the result of this upon the rest of the world will be, and in particular upon the British Empire, which appears to be directed by statesmen and financiers who have apparently learnt nothing and forgotten nothing in the past hundred years, only time will show.

We are operating under a system which has certain inherent and vital defects. These defects tend to produce and to aggravate both internal and international difficulties. Unfortunately, the means of enlightening the general public as to the real cause of these difficulties, by which I refer to the public Press, organised speech-making and broadcasting organisation and mass publicity in general, are all dependent for their existence on financial support. Consequently, to put it quite bluntly, they dare not indicate the cause of the trouble.

I do not myself believe that we can take to ourselves credit, either in this room, or even as a generation, for being the first discoverers of the true cause of the trouble, although I think probably we have added something to the stock of knowledge of it. I believe it has been discovered several times before, notably about a hundred years ago, and in every case general knowledge of it has been suppressed and the troubles caused by it have been used as an argument for some form of centralisation of power, of which the latest form comes under the name of "Rationalisation."

In my opinion there is no fundamental difference between "Rationalisation" as sponsored by Lord Melchett and Sir Herbert Samuel, and Nationalisation as sponsored by the Socialist Party, and I believe that the propaganda in regard to them comes from the same source. They are both of them policies for reducing the individual to an impotent unit in an overwhelmingly powerful mechanism. It is admittedly unwise to commit oneself to a statement as to when probable events will occur, but I think it must be obvious to any student of public affairs, that forces are now operating to produce some sort of a crisis, and possibly many sorts of crises, within a comparatively short time.

I should not be honest if I gave it as my opinion that such a radical reform as we desire is at all likely to take place so long as the credit and banking system remains under the control of the individuals who are now in possession of it.

As I remarked in an address two days ago the first point to realise clearly in assessing the practical situation is that the problems connected with the financial system do not arise out of the difficulties of financiers. There is only one uniformly prosperous business in the world today, and that is "banking" with its twin sister "insurance." You cannot realise too clearly that the financier's only anxiety is that the existing state of affairs should be permanent, and he is in a position to see that what are called "political appointments" are made with this objective in view, and I believe this to be just as true of the Labour Party as it is of the Conservative Party, and rather more true of the Liberal Party than either.

If you see these matters in the way that I see them, and I have no doubt that many of you do, you will realise the immense area and importance of the interests involved, you will also realise that taking the wide and the long view the approach of a very troublesome period which is as clearly indicated as any signs could possibly indicate anything, ought to be, and for my part is, an indication to be welcomed that the forces of mankind are upon the march, that the seed which we have sown to the best of our ability and which may have appeared during the last few years to be lying fallow, is now beginning to sprout, and that although the forces of reaction undoubtedly will not retreat and be finally defeated without striking many a shrewd blow, in the words of the inspired prophet "The time of our redemption draweth nigh."

XII

“FOOLED AGAIN”

WHEN President Lincoln enunciated his famous complaint that “You can fool some of the people all of the time, and all of the people some of the time; but you can’t fool all of the people all of the time,” he indicated a defect in the scheme of things which, it is obvious, is troublesome to politicians generally.

As so often happens when a problem is clearly stated, he set in motion the activities of many of the world’s best minds, with the result that although the statement is still true, it is not immediately important. The general Press and other agencies of publicity have been effectively organised to produce an impression of general befoolery on the part of the public when the rabbit is extracted from the hat, and all is well—for the moment.

These reflections are provoked by a consideration of the skilful stage-management, with Mr. Philip Snowden as the star, to which we have been treated in connection with the Reparations Conference at The Hague. With a bellow which Signor Mussolini must have envied, Mr. Snowden announced that any attempt to divert to France or any other European country the sum of £2,400,000 (1-400th of the Budget, and less than 1-20th of the sum we annually pay the U.S. for money we never received), which may problematically be received by Great Britain from Germany, would make him very, very angry indeed, and he would be sure to do something about it. With more unanimity than I can ever remember on the part of the Press of this country, this gesture was applauded. The Young Plan, of which the only important feature is the formation of the World Bank, was thus exhibited as a European, and particularly French, attack upon the British people, instead of a Wall Street attack upon France, with Great Britain, as usual, as a cat’s-paw. If this precious scheme for handing over the world, and incidentally the British Empire, to the tender mercies of the Bankers, were eventually to be accepted by the Conference, with a modification in the sense of Mr. Snowden’s protest, the British Public would be expected to, and probably would, imagine that Great Britain had won a great victory, and that Mr. Snowden had acted as a courageous representative of the country’s best interests.

Now, it is obvious that there are many things which might be said about this situation, but for the moment perhaps the most interesting of these is the clear light which is thrown upon the essential antagonism between executive statesmanship and public interest. Or, to put it another way, statesmanship might be defined as effectively fooling the People without being found out. I do not think that this matter is quite so clearly realised as it might be, and it is probably worthwhile giving a little space to its examination.

Let us first state the problem. Is there some essential reason which makes it impossible to conduct the affairs of any country honestly? By honestly, I mean with a continuous endeavour to take such action as will realise a plainly set-forth objective, such objective being one which the public would itself accept as desirable, if it thoroughly understood it. And if the answer is in the affirmative, as I think it is, is there any process operative to produce a particular type of statesman willing to conduct the affairs of the nation dishonestly?

Now it is perhaps hardly necessary to remark that in a conventional sense of the word it would be difficult to find a more honest man than Mr. Snowden.

It is highly probable that he attaches considerable importance to this sum of £2,400,000 per annum, both because in his Budgetary difficulties every item will be of importance, and because of the immense political capital to be made out of the feeling that it is quite time someone else, other than Great Britain, “paid” for the war ... a feeling which I think is common to 99 percent of the population of these islands, including myself. But I find it difficult to believe that Mr. Snowden, who is possessed of considerably more intelligence than our late unlamented Prime Minister, regards the mere allocation of the sums obtained from Germany as being the most important aspect of the Young Plan, or is unaware of the fact that it is quite unnecessary for anyone to pay for the war—that was done by those who fought it either in the trench or the factory. Even Mr. Bernard Shaw, whose brilliant wit is so delightful a contrast to his “Socialism,” understands that.

Assuming this to be the case, and crediting Mr. Snowden with the ability which I believe he possesses, only one conclusion is possible. He has decided to wreck the Plan, but wishes to wreck it on a comparatively minor point rather than on the question of the Super-Bank which is involved in it. In other words, he would rather antagonise France, Italy, Japan, and possibly Germany, than antagonise the financiers, probably in the main of American domicile, who propose to place Europe under the control of an International Bank. To this end, the Press is engaged in the mobilisation of British opinion against the countries and statesmen who, while involved, are no more or no less responsible than are soldiers in a war they do not understand.

In this situation we have an exact parallel to the condition of affairs which exists in our home politics. Finding it impossible to deny that the condition of industry, of social life, and of national morale is thoroughly unsatisfactory, the role of the statesman appears to be to find a scapegoat who can be blamed with comparative impunity. Mr. Snowden must know, as any individual of ordinary intelligence who devotes a little time to the question must know, that the condition of affairs in the mining industry, textile industry, and the railways, to take only three examples, is fundamentally attributable, and almost solely attributable, to the dead weight of an obsolete financial system. But in the mining industry he allows financial interests to capitalise the discontent of the miner, so that the mineral owner may be deprived of his coal although within the frame of the existing financial system, coal is a form of property indistinguishable from other forms of property except that it is most unfairly taxed. There is no factor in the coal problem so unimportant as the ownership of the raw material, which represents an item in the selling cost of coal of about 3d. per ton. But the mineral owner is a fairly defenceless scapegoat. In the textile industry every effort is made to suggest that management and machinery are at fault, thus strengthening the hand of those interests which desire to trustify the textile industries while obtaining the assets at break-up prices from their existing owners. To the extent to which the textile industry of Lancashire is operating on obsolete machinery, the responsibility is obviously financial, and financial only, since the finest textile machinery is made in, *and exported from*, Lancashire. If the present owners had the money—or rather, if it would “pay”—they would naturally use the equipment which the makers would be so glad to sell to them. The railways, which were trustified at the behest of the Bank of England and the powers operating through it, are, almost alone amongst the railways of the world, in a state of financial, technical, and administrative stagnation, the services rendered to the public being little, if at all, superior to those available over thirty years ago, the prices charged for these services being probably more than double, and the return to the shareholders less. There is hardly a practical railwayman in the country who does not regard the grouping system as having accentuated every problem with which he has to deal.

So long as this condition of affairs remains . . . so long indeed as the financial system remains unmodified . . . statesmanship would thus appear to consist in attacking one section of the public after another, and steadily reducing the power of resistance of each while consolidating the position of the financial hierarchy. There can be no remedy for this state of affairs, so fatal to morale, until a statesman is in power who is prepared to face squarely the issue that either finance will rule the world and the statesmen will become a species of bank clerk; or, on the other hand, a halt will be called to the aggression of the financier, sanctioned and assisted by the law, upon each section of society in turn, and he will be reminded of the warning given many hundreds of years ago : “Ye take too much upon yourselves, ye sons of Levi.” Time alone will show whether Mr. Snowden is content to be a bank clerk. He has had, within the last few weeks, an exhibition of the temper of the British people, which, as Lord Castlerosse remarked in the *Sunday Express*, “has done more to shake the Conservative Party into a sense of reality in one week than did Mr. Baldwin in five years.” If he can manage to grasp the fact that the enemies of this and every country are not Frenchmen or Italians or Americans, not dukes, nor employers, or even rich men *per se*, but those people, wherever they may be domiciled and whether Jew or Gentile, who are determined to maintain a system which would destroy all initiative not sanctioned by themselves, then he has an opportunity to go down to history as the founder of a new Magna Charta. But I cannot help feeling that if we are witnessing the opening of a new drama of Runnymede, the Chief Baron is getting a suspiciously good Press.

XIII

THE AMERICAN SITUATION

MANY readers have no doubt been at a loss to account for the apparent anomaly involved in the sudden transition from a state of great prosperity to a state of financial and industrial depression, which has been a feature of the past year in the United States.

It will be remembered that politics in the United States, so far as the man in the street is concerned, turn upon what is called "prosperity," and that no Government will be tolerated which does not make prosperity its first objective. Conversely, a Government which does succeed in providing prosperity can do practically anything else that pleases it. Bearing in mind that financial power is paramount in the United States, and that prosperity in the modern world is for all practical purposes dependent on financial policy, why do we see the United States grappling with an industrial crisis, apparently not very dissimilar to that which holds Great Britain in its grip?

Now, to understand this situation, the first point to be realised is that the Government of the United States (i.e. the President, the Senate, and the House of Representatives) is on the whole hundreds of years nearer to being a realistic organisation than are the Cabinet, the House of Lords, and the House of Commons, in Great Britain. That is to say, while only in the last two or three years, there is growing up a small, but increasing, body of members of the House of Commons, who are competent to hold and express an opinion on finance without first consulting their local bank manager, for at least forty years, and probably more, genuine finance, by which I do not mean mere discussions on taxes and tariffs, but rather questions as to the basis and function of credit, have been continuously matters of practical politics in Washington. They first came under review at the very birth of the Republic in the days of Alexander Hamilton. They were of the very essence of the situation created by the Civil War in the late sixties and early seventies. The Bryan Free-Silver Campaign, little understood perhaps by Bryan himself, nevertheless injected fresh ideas into the perennial controversy. And since the War, a continuous agitation, to which such persons as Mr. Henry Ford have contributed, has been proceeding on the same subject.

Now, the result of all this, interlocking with the control of finance over patronage in politics as elsewhere, has been to produce a peculiar situation, which, so far as my knowledge goes, is not precisely paralleled elsewhere. Considered as an institution, the Government of the United States has never relinquished its sovereignty over finance. Finance has, as usual, and by the simple method of supplying the campaign funds of all the political parties impartially, managed to make its own views prevail, but while being a Government "de facto," it has not succeeded in becoming, as in Great Britain, a Government "de jure." You do not hear in the United States timid and apologetic assurances that on no account would the Government think of criticising, much less of interfering, with the banks or the great credit institutions, although for the reasons which we have just noticed, such interference does not usually materialise, and criticism remains largely ineffective.

In particular, the office of President, which office still represents the most formidable concentration of power resident in any position held by one man in the world today, has always held a potential menace to the power of money.

It will not come as a new idea to students of the credit problem, that the financial system, as such, provides an effective sieve for the purpose of assuring that no individual comes into a position of considerable power, without having given, for a considerable portion of his lifetime, satisfactory evidence that he will behave in accordance with the principles which are paramount in the world today. Through the agency of these principles, it has on the whole been possible to see that either only safe men were elected to the Presidency, or at any rate were only allowed to be effective in harmless directions.

The Presidential election of 1928, however, presented a curious problem for the financial interests to solve. For reasons which are, no doubt, deeply involved in high politics, finance did not want a Roman Catholic President of the United States, and Mr. Al Smith was a Roman Catholic. It was considered that there was only one candidate strong enough to defeat Mr. Smith, and that was Mr. Hoover, who greatly

enhanced a reputation already considerable in industrial circles, by the organising ability he displayed during and immediately subsequent to the War.

Now Mr. Hoover is something new in Presidents, and the financiers distrust him, probably with reason. He has the training and experience of an engineer. Instead of merely talking about things in the orthodox manner of the politician, much of his life has been spent in doing them. During the last few years he has been the objective of instruction on realistic finance from several people familiar with ideas expressed in *The New Age*, and from other sources of a similar character. So that having used Mr. Hoover to defeat Mr. Smith, it became the obvious strategy of the financial power to discredit Mr. Hoover, and the most direct method of doing this was to turn the prosperity of the United States into industrial and business depression.

It was quite easy. A pretext was found in the Stock Exchange speculation which is bound to be a feature of a rising market, to impose fantastic call rates on money, and to restrict loans and withdraw them from existing borrowers. The Stock market crash of last October was just as artificial as that of 1907, which was engineered by the American banks to teach the public the result of dabbling with dangerous ideas such as those put out by Mr. Bryan in his Free-Silver campaign. The objective was the same, but transferred from Mr. Bryan to Mr. Hoover, and already the slogan of "Back to Coolidge and Prosperity" is achieving a considerable measure of popularity. It is perhaps hardly necessary to observe that Mr. Coolidge, a complete nonentity, is regarded as the model President.

So far as can be seen by the unprivileged observer, Mr. Hoover has not so far given to Wall Street any serious grounds for anxiety, although his endorsement of higher tariffs is no doubt offensive to international finance, which is quite clear in its own mind that the only desirable tariffs are those which are imposed by itself through the medium of the exchange rates. Mr. Hoover has, however, at least two more years of office, and, if we might venture to give him a hint, that is all the time at his disposal to prove whether he or the bankers rule the United States. If the bankers should be proved to have made their claim good, not only will the cause of economic freedom have received a setback, but Mr. Hoover himself will have lost an opportunity such as is rarely afforded even to Presidents of the United States.

If the situation in America has been correctly appreciated in the preceding paragraphs it contains a lesson for us in this country. The strategy of international finance is, like all great strategies, based on a few simple principles, and these principles are repeated again and again. The Labour Party in this country has been put into office in order to be discredited, the Liberal Party, which is predominantly financial, and notably Jewish-financial, in its interest, being put into a position to turn it out at any moment of crisis, and to put back our own Coolidge, Mr. Baldwin, for a fresh period of "tranquility." Suppose, for instance, that the Snowden Committee on Finance and Industry were really to grapple with the causes of the social and industrial decay in this country. Then the Liberal Party would be instructed to turn out the Labour Party, and the Report of Mr. Snowden's Committee being the report of a discredited Government would be pigeon-holed by their successors, who would be subconsciously aware that their only chance to retain the loaves and fishes would be to leave the question of finance severely alone.

The deduction to be made from these considerations is clear enough. Every effort ought to be made to discredit the idea that a mere change of Government is an effective remedy for any of our troubles. As I am always willing to admit to anyone who is interested in so unimportant a matter, my political sympathies, if any, are Tory, possibly because there is no Tory Party in this country. But any small influence which I might have at the present time would be devoted to keep the present Government in power, simply because it is the present Government, and for no other reason. Every change of the ostensible Government is a success for the real Government, Finance, which is the deadly enemy of this country, and it is our business to cultivate the form of neutrality in regard to ostensible Governments which was expressed by the American in the early part of the European War when he said that he was so neutral that he didn't care who licked Germany.

One further observation on this situation. As Lords Beatty and Jellicoe have just told us, the naval strength of this country is in course of being reduced to a point which will ensure disaster if and when this country is attacked at sea. This reduction is not made because we cannot build the necessary ships. Our shipyards are idle, our steel furnaces are unlit, our men are sick for lack of work. It is because— God help our poor turnip heads—we have no paper-tickets—"money."

If there is a spark of virility left in this country, the day the next war breaks out the local representatives of Finance will face a firing party in the Long Gallery of the Tower.

PRODUCTION AND PRICES

Notes of a lecture by Major C. H. Douglas in 1920 at a meeting of the National Guilds League.

BEFORE dealing with subject of lecture I propose to comment on method by which conclusions are arrived at : Explanation likely to cause intense irritation! It is admitted by most persons that there is something seriously wrong in the world today—wars, strikes, etc., general disgruntlement; various prescriptions for the disease.

(1) Super-productionists, the “Capitalist” party, who refuse to admit any fault in the system. The key-note of their remedy is harder work and more of it.

(2) What may be called the ecclesiastical party; key-note of their policy is “a change of heart.” Their attention is concentrated in hierarchical problems, administration, etc. The legal, military, bureaucratic mind is essentially of this type, and the Whitley Council, the Sankey Report, and the various committee schemes of the Fabian Society in this country, the Plumb scheme in America, etc., are examples of it. All these schemes are *deductive* in character; they start with a theory of a different sort of society to the one we know and assume that the problem is to change the world into that form. In consequence, all the solutions demand centralisation of administration; they involve a machinery by which individuals can be forced to do something—work, fight, etc.; the machine must be stronger than the man.

Practically all Socialist schemes, as well as Trust, Capitalist, militarist, etc., schemes, are of this character, e.g. the League of Nations, which is essentially ecclesiastical in origin, is probably the final instance of this.

It may be observed, however, that in the world in which things are actually done, not talked about, where bridges are built, engines are made, armies fight, we do not work that way. We do not sit down in London and say the Forth Bridge ought to be 500 yards long and 50 ft. high, and then make such a bridge and narrow down the Firth of Forth by about 75 percent and cut off the masts of every steamer 45 ft. above sea level in order to make them pass under it. We measure the Firth, observe the ships, and make our structure fit our facts. Successful generals do not say “the proper place to fight the battle is at X, I am not interested in what the other fellow is doing, I shall move all my troops there.”

The attempt to deal with one of the industrial and social difficulties existing at this time, which is embodied in these remarks, starts from this position therefore.

It does not attempt to suggest what people ought to want, but rather what they do want, and is arrived at not so much from any theory of political economy as from a fairly close acquaintance with what is actually happening in those spheres where production takes place and prices are fixed.

If we look at the problem of production from this point of view, the first thing we ask ourselves is why do we produce now. The answer to this is vital—it is to make money. Why do we want to make money? The answer is twofold. First, to get goods and services, afterwards, to give expression, often perverted, to the creative instinct through power. Please note that these two are quite separate—whether a man has any recognisable creative instinct or not, he absolutely requires goods and services of some sort. We then have our problem stated; we have to inquire whether our present mechanism satisfies it, and if not, why not, and how can it be altered so that it does satisfy it.

Emphasising the fact that it is only half the problem, the only half I propose to deal with tonight, let us inquire to what extent we succeed in our primary object—that of obtaining goods and services when we produce for money under the existing economic system.

Production only takes place at present when at least two conditions are met, when the article produced meets with an effective demand, that is to say, when people with the means to pay are willing to buy, and when the price at which they are willing to buy is one at which the producers are willing to sell.

Now, under the private capitalistic system the price at which the producer is willing to sell is the sum of all the expenses to which he has been put plus all the remuneration he can get called profit. *The essential point to notice, however, is not the profit, but that he cannot and will not produce unless his expenses on the average are more than covered.* These expenses may be of various descriptions, but they can all be resolved ultimately into labour charges of some sort (a fact which incidentally is responsible for the fallacy that labour, by which is meant the labour of the present population of the world, produces all wealth). Consider what this means. All past labour, represented by money charges, goes into cost and so into price. But a greater part of the product of this labour—that part which represents consumption and depreciation—has become useless, and disappeared. Its money equivalent has also disappeared from the hand of the general public—a fact which is easily verifiable by comparing the wages paid in Industry with the sums deposited in the Savings Banks and elsewhere—but it still remains in price. So that if everyone had equal remuneration and equal purchasing power, and there were no other elements, the position would be one of absolute stagnation—it would be impossible to buy at any price at which it is possible to produce, and there would be no production. I may say that in spite of enormously modifying circumstances I believe that to be very much the case at present.

But there is a profound modifying factor, the factor of credit. Basing their operations fundamentally on faith—that faith which in sober truth moves mountains—the banks manufacture purchasing power by allowing overdrafts, and by other devices, to the entrepreneur class: in common phrase, the Capitalist. Now, consider the position of this person. He has large purchasing power, but his personal consuming power is like that of any other human being: he requires food, clothes, lodging, etc.

If, as is increasingly the case, the personal Capitalist is replaced by a Trust, there is a somewhat larger personal consuming power, represented by the stockholders, but it is still incomparably below the purchasing power. What happens? After exhausting the possibilities of luxuries, the organisation itself exercises the purchasing power and buys the goods and services which it itself consumes—machinery, raw material, etc. In consequence, the production which is stimulated—the production which we are asked to increase—is that which is required by the industrial machine, intermediate products or semi-manufactures, not that required by humanity. It is perfectly true that money is distributed in this process, but the ratio of this money to the price-value of human necessities—ultimate products—is constantly decreasing for the reasons shown, and the cost of living is therefore rising.

Before turning to the examination of the remedy built upon this diagnosis, it is necessary to emphasise a feature of our economic system which is vital to the condition in which we find ourselves, i.e. that the wages, etc., system distributes goods and services through the same agency by which it produces goods and services—the productive system. In other words, it is quite immaterial how many commodities there are in the world, the general public cannot touch them without doing more work and producing more commodities. It is my own opinion, not lightly arrived at, that that is the condition of affairs in the world today—that there is little if any real shortage, but that production is hampered by prices, and the Capitalists cannot drop prices without losing control. However that may be, this feature, in conjunction with those previously examined, has many far-reaching consequences—amongst others the feverish struggle for markets, which, in turn, has an overwhelmingly important bearing on Foreign Policy. To sum the whole matter up, the existing economic arrangements:

- (a) Make credit the most important factor in effective demand.
- (b) Base credit on the pursuit of a financial objective, and centralise it.
- (c) This involves constantly expanding production.
- (d) This must find an effective demand, which means export and more credit.
- (e) Make price a linear function of cost, and so limit distribution, largely to those with large credits.
- (f) Therefore direct production into channels desired by those with the largest credits.

A careful consideration of these factors will lead to the conclusion that loan-credit is the form of effective demand most suitable for stimulating semi-manufactures, plant, intermediate products, etc., and that “cash”-credit is required for ultimate products for real personal consumption. The control of production, therefore, is a problem of the control of loan-credit, while the distribution of ultimate products is a problem of the adjustment of prices to cash-credits. It is only with this latter that we are at present concerned.

We have already seen that the cash-credits provided by the whole of the money distributed by the industrial system, so far as it concerns the wage earner, are only sufficient to provide a small surplus over the cost of the present standard of living, and that only by conditions of employment which the workers repudiate, and rightly repudiate. We cannot create a greater surplus by increasing wages, because the increase is reflected in a compound rise in prices. Keeping, for the moment, wages constant, we have to inquire what prices ought to be to ensure proper distribution.

Now the *core of this problem is the fact that money which is distributed in respect of articles which do not come into the buying range of the persons to whom the money is distributed, is not real money*—it is simply inflation of currency so far as those persons are concerned. The public does not buy machinery, industrial buildings, etc., for personal consumption at all. So that, as we have to distribute wages in respect of all these things, and we want to make these wages real money, we have to establish a relation between total production, represented by total wages, salaries, etc., and total ultimate consumption, so that whatever money a man receives it is real purchasing power. This relation is the ratio which total production of all descriptions bears to *total* consumption and depreciation.

The total money distributed represents total production. If prices are arranged as at present, so that this total will only buy a portion of the supply of ultimate products, then all intermediate products must be paid for in some other way. They are; they are paid for by internal and external (export) loan-credit.

If prices are arranged so that they bear the same relation to cost that consumption does to production, then every man’s money will buy him his average share of the total consumption, leaving him with a balance which represents his credit in respect of his share in the production of intermediate products (semi-manufactures)—a share to which he is entitled, but which is now almost entirely controlled by the financier in partnership with the industries’ price-fixer.

It is a little difficult to state with any accuracy what proportion of cost prices ought to be, because of the distorting effect of waste, sabotage, and aimless luxury.

I am making some rather tedious investigations into this, and I can only say that I am convinced that even now prices are several times too high.

LEFT-WING TAXATION

UNDER whatever name the parties to political controversies may pass locally, whether that of Conservative, Tory, Liberal, Radical, Socialist, Communist, Republican, or Democrat, it does not require very much acquaintance with the subject to recognise that they represent, wherever found, certain broad attitudes of mind which are conveniently described by the continental terms "Right Wing," "Centre," and "Left Wing."

This is generally recognised. To a lesser degree, it is also recognised that extremes meet, that the extreme Right Wing reactionary, and the extreme Left Wing revolutionary, are fundamentally similar. There is little but a difference in form and mechanism between the ideas of a Mussolini and a Lenin or Trotsky, and they are identical in their contempt for liberty, and passion for the rule of centralised force.

It is elementary to observe that in such cases as the political systems of Russia and Italy, we are spectators of the ultimate incarnation of a system of thought. Since the distribution of this system of thought is not confined to the countries in question, we should expect to find evidences of it elsewhere. I think we do find such evidences, and as they are specially plentiful in the field of taxation, that field will fully repay a little attention.

To observe that the extreme revolutionary has a passion for the imposition of taxes is to state the obvious, and it would be true enough to say that this passion might be explained, firstly as an exhibition of the revenge complex, and so far as intellectual processes enter into it, as being based on the idea that the poverty of the poor is due to the richness of the rich. Similarly, the acquiescence of the Right Wing reactionary in taxation, so long as it penalises the less fortunately situated, might be put down to a more or less conscious recognition of the fact that as taxes have to be paid in money, the mass of the population can, by taxation, be kept in a position of subservience to those from whom alone money can be obtained.

It can be found by anyone who will take the trouble to investigate the matter, that these mental attitudes have certain characteristics in regard to taxation, which are more subtle, and one of these is the marked preference of the extremist mind for direct taxation, in the form of income tax, inheritance duties, the capital levy, and so forth, as opposed to indirect taxation of the nature of duties on articles of a consumable nature.

An examination of the fundamental nature of direct and indirect taxation, however, is sufficient to explain this phenomenon. Direct taxation is involuntary, and it is deflationary. Income tax and other taxes of a similar kind must, if we disregard more or less irrational modifications such as exist in our own taxation system, be paid by everyone. The taxpayer has no power of discrimination, and he falls into a rigid classification of which the determinant is the state of his bank book. The fact that one man with an income of £1,000 per annum may spend a major percentage of it in fostering, let us say, the betting industry, while a second with a similar income may devote the same proportion to an investigation of the cause and cure of cancer, is a distinction without a difference to the collector of taxes. On the other hand, a tax upon tobacco gives to the individual power of decision as to whether he will pay it. If he feels strongly on the matter, he need not buy tobacco.

It is well understood that taxation in its present form is an unnecessary, inefficient, and vexatious method of attaining the ends for which it is ostensibly designed. But while this is so, there is, of course, a sense in which, while private enterprise and public services exist side by side, taxation is inevitable. Public services require a provision both of goods and human service, and the mechanism by which these are transferred from private enterprise to the public service must in its essence be by a form of taxation.

Now just as there are two methods in theory by which the unearned increment of association, which we call public credit, can be distributed, these two methods being either a grant of "money" or a general reduction of prices, and the choice between these two methods is one of practicability and not of principle, so there are two methods by which this transfer of goods and services from private to public use can be obtained, the direct and the indirect method, and it is curious that we have such a tendency to insist on the

direct method, with its crudities, complications, and inequities. It would be both simple and practical to abolish every tax in Great Britain, substituting therefor a simple sales tax on every description of article, and, apart from other considerations, such a policy would result in an economy of administration far in excess of anything conceivable within the limits of the existing financial system. Why do we not do it? I think that in essence the answer is simple.

What we may call, for the purposes of this present article, “the taxing mind,” is obsessed with the idea that it has a divine mission to reform the minds, morals, and manners of humanity by the aid of its favourite instrument. It advocates taxes on tobacco and whisky, primarily possibly because it thinks the country must have the money, but antecedently because a number of quite possibly foolish people enjoy smoking tobacco and drinking whisky. In some cases, notably in the case of entertainment taxes, it is quite openly postulated that pleasure and, in particular, luxury of any kind is in its very essence suspect, and ought to be satisfied to be specially heavily taxed. This idea has such a general and unthinking acceptance that it is almost axiomatic to assume that anything connected with industry must take precedence in importance to anything connected with leisure or enjoyment. The culmination of this idea is the tax on income. Now, most people know quite well that popular “sentiment” of this or any other character is of the nature of steam in a boiler—its results depend not so much on the steam as the use which is made of it. The manipulators of the steam are deflationists (bankers, generically speaking), and the passion for direct taxation is exactly the steam necessary to work the deflation machine to the end that money may be scarce and that the banker may control both industry and population.

The practical importance of the foregoing considerations lies in the fact that the admixture of “moral” considerations into the question of finance and taxation is probably the most potent factor in the prevention of rational modification such as that embodied in the Social Credit idea. It is increasingly clear to me, at any rate, that the majority of those who, while eager to assist, are not suited, either by temperament or inclination, to become experts on the technical aspects of these matters, could do no greater service to the cause which they have at heart than by concentrating on this aspect of the question. It has many times been my own experience in dealing with individuals who might have been of signal assistance to an effective check on the financial monopoly, that in the last resort their true objective was not the solution of industrial or political difficulties, but the imposition of their own particular form of morals upon the community by the agency of economic Government. Until the validity or otherwise of this attitude has been definitely settled, there can be no advance. Government by economic restriction is fundamentally incompatible with either maximum output or maximum efficiency.

Nothing has done more to destroy that real, if somewhat misunderstood, “brotherhood of the trenches” than this question of taxation, with which, in Great Britain, is closely associated the wicked misuse of the word “dole” in connection with unemployment insurance, a device which was diabolically calculated to produce the impression that the tragic results of banking policy were due to the incubus of a shiftless proletariat.

Recently Mr. Justice Rowlatt, to his great credit, has denounced the calculated obscurity in which the statutes governing taxation are involved. That is a most hopeful symptom of the growing revolt. I do not think that any manipulation or even reduction of taxation will effectively deal with the problems of finance. But we shall be progressing when taxation is recognised for what it is—a Machiavellian device for the further enslavement of both those who clamour for it and those on whom it is imposed.

THE STARTING-POINT OF MONEY

THE publication of the report of the Mond-Turner Conference on industrial relations seems an opportune moment to consider the possibility, or probability, of any such conference arriving at a solution of the problems with which it professes to deal.

To what extent the draughtsmen of the report are actuated by the conviction that they are going to the root of the matter, I cannot, of course, attempt to judge. Lord Melchett (Sir Alfred Mond) has made it clear enough during the past few months that, so far as he is concerned, he is under no delusions as to the preponderating importance of finance in any consideration of industrial relations. Evidence is not wanting that, some years after the knowledge can be much good to them, Trade Union leaders are also aware that there are some things that they do not understand about the money system.

But, however this may be, it is clear enough that the Conference as a whole does not propose to attack with any vigour the real problem. Nor is this surprising. Apart from lack of technical knowledge in the actual delegates to the Conference, it is evident that the premises to a technical examination of the problem have not yet been decided, or perhaps apprehended.

Now, for the purposes of this article, there are three alternative suppositions in regard to the industrial system. The first of these is, that it is a disguised Government, of which the primary, though admittedly not the only, object is to impose upon the world a system of thought and action. The second alternative has a certain similarity to the first, but is simpler. It assumes that the primary objective of the industrial system is the provision of employment. And the third, which is essentially simpler still, in fact, so simple that it appears entirely unintelligible to the majority, is that the object of the industrial system is merely to provide goods and services.

It is a tribute to the immense flexibility of finance, considered simply as a tool, that it can be adapted without very great difficulty to meet the requirements of any one of the three foregoing premises. And the adaptation is in essence as simple, although as radical, as the difference between these premises. Disregarding for the moment details of mechanism, it is a matter which is dependent upon the point of origin of money.

It is axiomatic to students of monetary science that, at the present time, for all practical purposes, money originates with the banking system and that our industrial and economic system consists of three components, the finance component, the employer or entrepreneur with his army of employees, whom we may for convenience call the producer, and his market, consisting of the total population in its aspect of consumer, and also other producers. It is also well understood that the money which originates in the banking system reaches the consumer through the agency of wages, salaries, and dividends, all of which go into the prices of articles consumed, and return to the banking system through the agency of these prices.

With this preamble, it may be useful to consider the financial conditions under which a company with a capital of, let us say, £10,000 operates. It buys a certain amount of land, buildings, plant. It employs men, and pays them wages, and it buys materials from other concerns. From time to time it finds it necessary to buy fresh machinery and to put up new buildings. It would like to charge the cost of this machinery direct to the purchasers of its own products, but it is somewhat hindered in this simple and amiable idea by competitors, who to some extent make a market price for the article that it produces, which price is independent of specific costs of production, although perhaps, governed by general cost of production. Consequently the cost of this machinery, etc., though it *must* ultimately be paid by the general public, is paid by instalments.

Now, as an observed fact at the present time, what actually happens is that the capital account of the undertaking shows a general tendency to be transformed from what is ordinarily called liquid capital, that is to say bank credit, into fixed capital, that is to say land, plant, buildings, etc. Observe that this *must* happen unless all the money expended for buildings, plant, etc., in addition to wages, salaries, dividends and cost of

raw material is charged to the purchasing public during a given accounting period. In passing, it is not without interest to notice that all the “writing down” which takes place in the accounts of such a concern is applied to the fixed capital and not to the bank credit.

Supposing for the moment that this process goes on uninterruptedly, a time must inevitably arrive in which the concern in question, while its accounts show a profit, yet has no money, i.e. liquid bank credit. There are only two courses open to it; it can apply to the public for more money, that is to say, it can increase its capital, which of course is merely a preliminary to the repetition of the process and further depletes its available market, or it can go to the bank and obtain a *loan* on the security of its fixed capital. The meaning of this requires the most careful attention, because it is the core of the industrial situation.

Money, using the word in its most comprehensive sense to include amongst other things bank credit, is an effective demand for goods and services. The undertaking which we are considering *borrow*s from the bank bank-money in exchange for a lien on its own property. At the cost of labouring the point, let it be repeated that a lien on the fixed capital is *given* in return for a *loan* of bank credit.

It is now well understood that in such a case the bank is not lending money deposited by other people; it is lending credit which it has created by a process of bookkeeping, and which costs it nothing. The thing which is lent is in essence of the same nature as a printed bank or Treasury note, the intrinsic cost of which was that of the printing and paper. So that we have the situation, that in return for something of which the bank has the monopoly, but yet which cost it nothing, the physical assets of the undertaking have become mortgaged. Further, and taking the industrial situation as a whole, the mortgage can never be paid off, because the mortgagee is in possession of the only medium, i.e. bank credit, by means of which the mortgagor can obtain release.

It will at once be seen that this situation is intrinsically bound up with the fact that effective demand starts from the banks and is regarded by them as their property. A little consideration further, however, will make it clear that any possible justification for this situation must rest on the assumption that the bank system is a governing system possessed, either by common consent or inherent virtue, of supreme economic sovereignty.

Now, as is fairly well known, this is not my view. But it is not very much use holding such a view if the situation is inescapable as, of course, it is not.

Ultimately, a properly coordinated 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 of the difficulty, but it is clear enough that we are approaching, and that fairly closely, to a situation threatening the productive system itself. With a view to meeting this situation one of the first requisites is to deal with the immobilisation of bank credits in fixed assets. There are many ways of doing this, and perhaps one of the simplest would be the automatic writing up of the bank-credits of any limited company to correspond with the increase in its fixed assets, as certified by a chartered accountant during a given accounting period. The effect of this, so long as the result was not defeated by rings of prices, would be to lower prices by enabling competitive concerns to get a proportion of their overhead charges out of prices charged for their product. It would undoubtedly strengthen the hand of the manufacturer, and in itself would do little to meet the twin difficulties of forced exports and decreased human labour per unit of production, both of which are vital to a comprehensive solution. But it would at any rate deliver us from the mismanagement of the financial hierarchy, and in so doing would stimulate the initiative of the class which appears to have the right type of mind for the attainment of a more permanent solution.

“THE ABOMINATION WHICH MAKETH DESOLATE”

[In considering the curves shown in a diagram on the following page it is necessary to bear in mind that the official statistics on which they are based are given in annual form, and therefore between the yearly dates which mark the ordinates the curves are, necessarily, interpolated. This, in all probability, accounts for their slight displacement from the events which seem to have controlled them.]

It is an unfortunate defect in our attitude towards human affairs that we place an inordinate value upon human life, but a trivial value upon human happiness. You may subject an employee or a member of your family to persistent mental and physical cruelty in the form of bad working conditions, unjust treatment, and a myriad other minor and major inhumanities, and within very wide limits (and in particular if you do not exceed the conditions which are accepted as normal) it is unlikely that you will receive much criticism. You may lend a widow £20 and make her life a misery by the recovery of interest at 75 percent per annum, and unless, as is most improbable, she herself takes the matter into court, nothing will be heard of it. But if the widow's son, goaded by his mother's misery, in a fit of uncontrollable rage waylays the money-lender with a coal hammer, and removes that gentleman to other spheres of activity, the son will, in all probability, be hanged, after the whole tremendous machinery of the law has automatically been set in motion for his apprehension and destruction, and the mother will be rendered still more miserable.

In consequence of this curious disregard for long-drawn-out misery, and the disproportionate solicitude in regard to the final termination of it, there are no statistics of human unhappiness until that unhappiness becomes so unbearable that the sufferer feels that it can no longer be endured, and himself places a period to it by suicide. When such a climax has been reached, however, society immediately takes an effective interest in his remains. It employs scientists to ascertain the physical cause of death, and detaches citizens from their normal pursuits in order that their observations on the state of mind of the deceased, who for the first time becomes interesting, may be recorded. Finally, the suicide becomes an item in a book of statistics, and is available as the raw material of a curve.

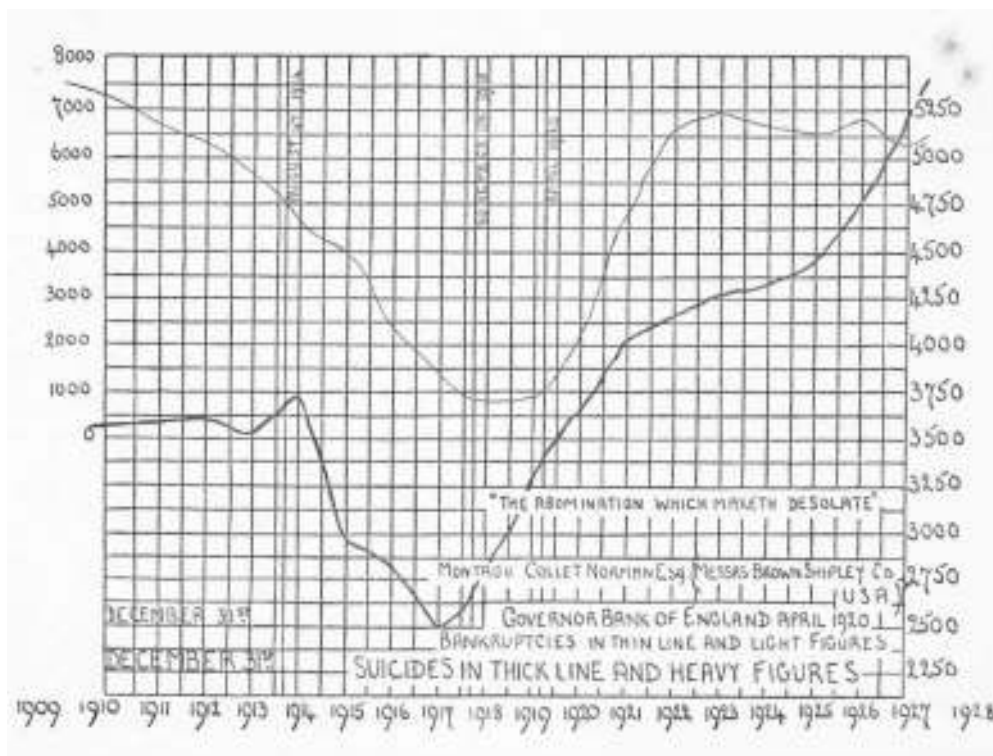
It is evident, I think, that one may regard suicide as being the culmination of a long period of unhappiness and mental or physical stress, although not all mental and physical stress culminates in suicide. If, therefore, we can find a set of statistics which in the main vary in accordance with the statistics of suicide we are, I think, in a position to say, in the phrase of the mathematician, that one set of statistics is a function of the other; that there is something which connects the two sets of statistics.

Now a glance at the graph is sufficient to show that one of the curves is a function of the other. In fact, the variation of one curve in accordance with the variation of the other is most remarkable, and is sufficient to show that the intervention of any other cause not allowed for in the plotting of the two curves is surprisingly unimportant. Where two curves vary together one of them is called the “dependent variable,” and the other is called the “independent variable,” and we have therefore to decide whether it is suicides which cause bankruptcies or bankruptcies which cause suicides. This dilemma need not detain us long. We have only to examine the recorded reasons for bankruptcies and the reasons for suicides to find that while financial worry is the commonest predisposing cause of suicide, suicide is almost never given as a predisposing cause of bankruptcy.

We can, therefore, deduce from official statistics that the greatest factor in human unhappiness is financial worry, of which bankruptcy may be regarded as the final stage. We can also deduce from the same statistics that this unhappiness is not inherent in the nature of things, but is a definite and traceable result of a policy, human in conception and human in execution. On the basis of the curves shown, human distress, mental and physical, in this country has increased by more than 100 percent, in the last ten years, and that increase coincides with the period of office of the present Governor of the Bank of England. I have no doubt at all that he would be horrified to believe that he had doubled the misery of this country in ten years, and very probably had been instrumental in a similar situation in all those countries where the policy of the Bank of England has become effective. But while I should not suggest for an instant that Mr. Norman has been actuated by anything but what he considers to be the best motives, I think that it is time that our English

convention (that no individual is responsible for the policy which he carries out if he does not originate it) should be dropped, and that Mr. Norman should be identified with the results of the Bank of England's policy, so long as he remains Governor of the Bank of England.

I fear it will not happen, but if a few rough, vulgar men could express to Mr. Norman their rough, vulgar opinion of a policy by which English and Scottish men and women are being butchered to make an international financial holiday, it might act as a stimulant to his imagination—if he recovered.



XVIII

MR. H. G. WELLS AND CREDIT

MR. WELLS has been writing about credit. In an article in an American magazine of wide circulation he chides, very gently, the bankers. No banker could feel hurt about it. In common with most Socialists, Mr. Wells, while having had at various times many hard things to say about the "Capitalist" and his exorbitant profits, which have recently been calculated as being on the average about 2 percent, evidently feels a strong measure of sympathy for the financier, whose disclosed profits are generally about 25 percent, and whose undisclosed profits we know to be incomparably higher. This sympathy, which is very noticeable in many Socialistic quarters, may be due to a common desire to control things and men without understanding them. I do not know. But the sympathy exists.

While making it clear that he feels that the banking fraternity consists of men of honour and skill in routine (and we confess that, on the whole, we agree with him), he is concerned to inquire whether or no they have any conception of what they are doing, or where their policy, if any, is leading us. Towards the end of his article, however, he mentions "the growth of a world system of co-related and co-operative central banks may be, as people put it, 'a natural development,' but also . . . there may be much more deliberate intention and lucid understanding in that process than appears on the surface." You will see from this that Mr. Wells is beginning to be exercised upon the relative merits of the "It-just-grewed" theory, or the "Plot" theory, and rather hopes the "Plot" theory is correct.

You must not imagine that Mr. Wells is thinking of the "Douglas Scheme." We know he is not, because he says so, although, curiously enough, it is the first thing that he mentions in referring to the growing volume of criticism directed against the orthodox economist and financier. After remarking that he knows nothing whatever about finance, which will, we think, be generally agreed to be superfluous, and that he is writing on the subject under invitation, which is extremely interesting, he lays down the three considerations which his ideal money system ought to fulfil, and it is these considerations which are specially worthy of our attention, because I think that in a tabloid form they express the philosophy not only of Mr. Wells, but of the banker and, let us say, Sir Herbert Samuel.

The first of these may be quoted in full . . . "The first is trustworthy wages. By that is meant a payment for a day's work . . . that will surely keep its promise to the worker. It must represent absolutely stable purchasing power. . . If the worker chooses to hold his wages for a time, he must find that they will still buy what he reckoned to get when he obtained them." The second requisite he places as "security of employment." The third requisite is that "it, and those in control of it, should act as a restraint upon war."

Before commenting upon these visions separately, let us consider the root idea underlying all three. It is that Mr. Wells in particular, and certain unspecified banking experts in general, either already know, or easily could know, what is good for the rest of the world, and ought therefore to be put in a position to make their will effective. Mr. Wells himself points out that the banking system, for instance, is a more powerful mechanism of control than has ever existed in the world before, and, at any rate by implication, that its results are more unsatisfactory than has ever been the case before. In fact, it might almost be said that Mr. Wells demonstrates that the unsatisfactoriness of the banking system is in direct proportion to the increase in its power. But his general remedy is to give it more power.

Let us consider his first desideratum ("trustworthy wages"). It will be noticed that "wages" are accepted as being axiomatically a sound institution. No glimmer of the tremendous physical revolution involved by the transfer of labour from the backs of men on to the backs of machines, and the consequent inadequacy of *any* theory of wages whatever to the new conditions, appears to have reached him. Further, the rapturous folly of the idea that a piece of printed and water-marked paper, or other money token, if put away in a cupboard, can, in some mysterious way, ensure that a certain number of loaves of bread can also be put away in a cupboard and deteriorate neither more nor less than the piece of paper, and consequently can be produced at any unspecified moment that the "saved" piece of paper is produced, appears to be present with him in an acute form, in spite of his reference to Professor Soddy. His conception of the word "trustworthy"

denies to the wage-earner for whom he is so concerned, any hope that prices will fall, and thus shuts him out from the benefits of progressive efficiency.

In regard to his second requirement, does Mr. Wells feel so confident that the modern world is enamoured of economically compulsory industrial employment to such an extent that it wishes to be secure in it forever? Has he never heard of people who hope some day or other to get into a position in which, so far from being secure in employment, they would be secure from the *necessity* of it? Is he quite sure that all of these are striking examples of original sin, and that only, for instance, the automobile manufacturer, concerned to secure foreign markets from his rivals at the cost even of war, is a true exponent of an inward and spiritual grace?

The fact is that, whatever may have been the case in the past, Mr. Wells is becoming a dangerously loose thinker. He says, for instance, in the article under consideration, "I am not setting myself up to lecture bankers and financiers . . . I would as soon propose to tell M. Voisin how to build an automobile. But I am perfectly justified in telling M. Voisin of any difficulties I find in the practical use of his automobile." Quite so. Mr. Wells is not, however, justified in telling M. Voisin, not only the sort of automobile that he thinks he would like, but also the sort of automobile that he thinks we should like. They are probably quite different. Still less is he justified in urging M. Voisin to corner the automobile market. And least of all is he safe in suggesting that M. Voisin, or anyone else, should control not only the automobile market, but the bread, clothes, and housing markets. But that is exactly what he is suggesting. From which we may gather that Mr. Wells has not taken the trouble to grasp the essential antithesis of money and, say, an automobile, in spite of the fact that when he acquired the one he parted with the other.

Then this question of making a financial system act as a "security against war." As I believe I have said elsewhere, the average man, while not perhaps representing the pure and undiluted light of wisdom, is not such a natural born fool that, having been maimed, blinded, killed, or impoverished in the last war, he requires restraining from war as an amusement. Just as Mr. Wells fundamentally mistakes the nature of money, so also he mistakes the causes and the nature of war.

The technical definition of war accepted by those whose business it is to understand war is that it is action taken for the purpose of imposing your will upon your adversary, or to prevent him from imposing his will upon you. Mr. Wells' contribution to the consideration of the problem of preventing war as thus defined is to make such suggestions as he can, to assist in the imposition of some unspecified will upon, *inter alia*, the unhappy British public, and to prevent them in the last resort, which is war, from resisting that imposition. If his words do not mean this, they do not mean anything. Like other Socialists, such as Mr. Winston Churchill, Mr. Philip Snowden, and Mr. Otto Kahn, Mr. Wells is an advocate of wars of aggression directed against the individual.

Of course, it is easy to see where the divergence arises between Mr. Wells, the orthodox banker, and, let us say, Sir Herbert Samuel, on the one hand, and a large number of people, of whom I am one, on the other hand. Mr. Wells feels that whatever Johnny is doing at the moment, someone ought to run and tell him he mustn't. I am with him to the extent that I think Johnny is very likely to be up to a certain amount of mischief, but as a purely practical proposition, he will get over it quicker and grow up sooner by burning his fingers than by Mr. Wells or anybody else persistently running and taking away the pretty matches. Of course, if, like the would-be Napoleons of finance, he plays with high explosive, he will be blown up, but that may be all for the best. To relinquish the language of metaphor, it appears to me that there are nearly always two methods of dealing with any situation. One is to force the community to accept the situation whether it likes it or not, and the other is to ameliorate the situation. I am not so impressed by the intrinsic superiority of those who fill the positions of power that I want to make it simple for them to adopt the first method.

While I should be the last to minimise the existence or the extent of the economic distress in Great Britain, for instance, at the present time, there is a sense in which that is not so important, even to those in distress, as certain other and more intangible conditions which exist, and are growing. Believing, as I do, that economic independence, security, and what is called a high standard of living, are the basis on which a satisfactory civilisation can alone be reared, it seems very clear to me that a general and well-founded *belief*

that no artificial restrictions are placed in the way of any individual in attaining these things is vital. It seems to be a very grave matter, then, that there is a growing disbelief in the natural sequence of cause and effect. By way of illustration a strong trade union has come to be considered the better way of getting a high wage than is an increase in economic efficiency. Taxation, amounting to legalised robbery, is an easy and effective substitute for genuine statesmanship. It is demonstrably far easier to make money by manipulating share-counters than by starting a business, or by working with the object of achieving physical results, and easiest of all to make it by lending it. In general there is a rapidly growing feeling that the whole financial and industrial system is what is popularly called "a wangle," and that the only sound thing to do with it is either to break it or treat it as a game. If that feeling grows, a situation may arise in which the psychology of credit has been destroyed. No credit system would work then.

Therefore I do not think that any of Mr. Wells' desiderata are worthy of serious consideration. What is required of the money system, at any rate in my opinion, is not that it shall be twisted still further into a mechanism for imposing anyone's set of ideas upon the world, even to please Jehovah, but that it shall form a faithful reflection of physical facts without, if it pleases you to put it that way, having any philosophy behind it at all. It does so happen that a money system which would reflect the physical facts of the productive system would coincide with an extraordinarily far-reaching philosophy, but that is, as one might say, by the way. It is very much better that philosophies should follow facts than that facts should be constrained in accordance with philosophies.

When and if such modifications to the money system as are necessary to meet this requirement are made, one of the first results would be that the sense of frustration, which is so much resented at the present time, would be relieved, and we should have a restoration of the belief in the efficacy of vigorous effort, which I think we are losing very rapidly. Perhaps Mr. Wells will think it over.

LUNACY FOR ALL

It is said that humour consists in the juxtaposition of the unexpected, and it has further been remarked that as God is the Absolute, and there can be nothing unexpected to Him, He can have no sense of humour.

These meditations are provoked by the perusal of *The Times* of December 14th, 1927. One would not be accused of accepting entirely without reservation *The Times* as the absolute, though the frivolous have been known to refer to it as the absolute limit. Nevertheless, it is not the organ to which our thoughts immediately turn when in search of humour.

Just as the gods—let the plural be noted—occasionally descended from Olympus, so there is a suggestion that the third “leader” of the issue in question, which bears the title we have ventured to appropriate for this article, is not without a certain unexpected relation to the news column which faces it, and is physically, at any rate, in juxtaposition to it.

The leader commences in the authentic manner. It remarks that “The news that the country is going slowly but steadily mad will be received with mixed feelings.” A little lower down it proceeds, in words which we cannot help appropriating in spite of the unsuitability of the description, “Men of finer mould, whom even victorious bankers cannot command, may yet feel a certain poetic justice in a state of affairs which must be regarded as a triumph for the moon.” So ruminate the gods. Let us turn to the company they keep. It is called “The scheme for regulating the coal mining industry of Yorkshire, Nottinghamshire, and Derbyshire.”

As reported by *The Times*, the main details of the scheme are as follows:

1. A levy of 3d. a ton on all the coal raised in the federated area.
2. Financial assistance from the fund thus created to collieries engaged in the export trade.
3. Regulation of output during the period that will elapse before the export tonnage will be raised to the required amount.

The *Times* correspondent remarks, with a notable absence of enthusiasm, that the object is to establish the prosperity of the coal-fields by stimulating exports, and to free the home market from the competition of the coal which at present cannot find a market abroad. In other words, and to put it quite simply, the object of the scheme is to still further cheapen coal to the foreign buyer, and raise the price of it to the home buyer.

Now I believe that in those institutions devoted to the care of persons afflicted with an infirmity of the mind, it is recognised that it is not pragmatically useful to laugh unduly at the gentleman who informs you that he is a poached egg and that, like St. Paul, though for other reasons, he dies daily. Rather is it useful to accept the situation and converse gently with him on the manners and habits of poached eggs, and the subtle devices by which they may prevent themselves from appearing on the breakfast table. For this reason, and for no other, it may be desirable to refrain from a demand that violent measures should immediately be taken against persons who put forward such a scheme as the foregoing, but to accept the situation suggested by the *Times* leader, dealing with the afflicted accordingly.

Let us begin at the beginning. Coal is real wealth as distinguished from money, which is a claim on wealth. Further than that, coal is real wealth of a very special kind. While there may be a great deal of it, that quantity, though large, is finite, and for all practical purposes irreplaceable. So far as Great Britain is concerned, it is not only wealth of a special kind, but it is wealth of a unique kind, since it is, to an overwhelming extent, our main source of power, and the fact that our natural resources and water power are small and we have no oil deposits of any consequence renders coal (not, be it noted, the money obtained from selling coal) more important to us, possibly, than to any other country in the world. That is the first point to be borne in mind. The second point which we really think ought to be obvious to any persons not mentally afflicted is that you cannot grow rich by sending wealth away from a country. The orthodox

justification for exports, which is not the true reason for exports at the present time, is that you export wealth in order to import wealth in exchange for it. Even taking this erroneous explanation of the present reason for exports as being the correct explanation, it seems a little hard to understand why anyone should devise a scheme to exchange a ton of coal for less imports than would normally be obtained for it if the scheme were not in operation. But the fact is, of course, that the very last thing that the industrialists of this or any other country want, is to obtain imports in return for their exports. It so happens that on the same day that this remarkable scheme was published in *The Times*, the National Union of Manufacturers presented a powerfully supported petition from their Liverpool centre to the effect that a tariff should be placed on all imports, with a view to substituting British manufactures for foreign manufactures.

At this point, the gentleman who has persuaded himself that he is a poached egg will be sure to observe that we have to export coal because we do not grow enough wheat to feed our population. There are obvious reasons why our conversation with him at this point is better conducted out of earshot of the rest of the inmates, because a number of them are struggling with what they call the agricultural problem, which consists in the lamentable fact that as a British farmer cannot sell at a profit wheat that he does grow, more than two and a half million acres of arable land have gone out of cultivation since the war, and, superficially at any rate, he would be justified in objecting with some vigour that, according to the foregoing, the more coal we export the more certainly would he go into bankruptcy.

The matter might be pursued into the many ramifications involved by questions of this character. It might be mentioned that the immediate result, for instance, of selling coal to, say, Germany, under the light of the moon, in this manner, would be to force down the wages of the German miner so that German coal would be brought down to a competitive price, with the result that the purchasing power of the German miner would thereby be depressed, his power to take goods off the German market would be decreased, and the German industrial system would be still further under the necessity of increasing its exports in competition with those of our own manufacturers.

But the serious point which, I think, must be evident to anyone who will consider this scheme for five minutes with an unprejudiced mind is the point which is becoming so remarkable in all questions of policy in this country, and which may be expressed in the form I ventured to use in the preface to "Social Credit," that "the Devil is God upside down." The scheme in question bears a considerable family likeness to the scheme for the mining industry which, with Mr. Orage, I put forward in 1919, with the trifling reservation that it produces exactly the opposite results and accentuates every difficulty which that scheme was intended to meet. It is intended to raise the price of coal to the home consumer instead of to lower it; it is intended to lower the price to the export buyer, and so lower the return which is obtained for our coal, instead of to increase it. It is expressly, though of course not consciously, designed to assist in the rapid arrival of the next war rather than to avert it. It does not expand National Credit for the benefit of British nationals; it diminishes it.

On consideration, I cannot help thinking that the leader writer of *The Times* has understated his case. We are not going mad; we have gone mad. I don't know what their industrial competitors think of our Captains of Industry, but they terrify me.