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FOR POLITICAL AND ECONOMIC REALISM

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From Week to Week

(To avoid interrupting Major Douglas's text unsuitably it has been necessary to curtail the available space on this page to such a degree as to suspend for one issue the notes under the above heading which are almost a constant feature of *The Social Crediter*.)

New Zealand Social Credit Association

The "Headquarters" D.S.C.A. Group of Wellington, N.Z. (Secretary Mrs. Graham) is no longer affiliated to the Secretariat. In this connection it is to be remembered that Major Douglas advised against attempting to gain Social Credit by the creation of a political Party; and the use of his name and prestige to this end is incompatible with his policy.

(Signed) Hewlett Edwards,
Director, Overseas Relations.

Resignations

From the Social Credit Secretariat, Mrs. C. Geoffrey Dobbs, Director, *ad hoc*. (Dated June 29, 1954.)

From a Fellowship of the Social Credit Secretariat, Dr. C. Geoffrey Dobbs. (Dated June 29, 1954.)

Students of Politics should read:

ODLUM v. STRATTON
(Verbatim Report of Proceedings)

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BELFAST.

The New and the Old Economics

In view of the progressive situation in Australasia, the present appears to be a suitable moment to make available the text, for some time out of print, of Douglas's reply to Messrs. Copland and Robbins, the last major contribution to the discussion of Social Credit economics from his pen. The text will be published in pamphlet form later:—

SECTION I.

I have been asked to reply to a lecture by Professor Copland, Dean of the Faculty of Commerce in the University of Melbourne, which has been reprinted under the title of *Facts and Fallacies of Douglas Credit*, and published by Messrs. Brown, Prior & Co., Melbourne, and I do this the more willingly since Professor Copland's pamphlet brings out a number of points which have proved controversial, in a form which makes them convenient to deal with. Within a month of Professor Copland's address, Professor Robbins, of the University of London, read a paper before the British Association criticising some of my theories on somewhat similar grounds (an application to the British Association for a copy of the paper, however, produced the reply that it would not be reprinted in full, and I am therefore obliged to rely on the excellent report contained in the *Yorkshire Post*), and it seems convenient to include a reply to his criticism where it differs substantially from that of Professor Copland. In the following pages, therefore, where the subject matter refers to Professor Robbins's remarks, the paragraph will be distinguished by (R).

I will pass over Professor Copland's criticism of my literary style in the first section of his pamphlet, which may be summarised in his paragraph: "Unfortunately, his writings have not been characterised by that clarity of expression that (*sic*) will enable the average man to follow him with certainty." It is, unfortunately, inevitable that the process of pioneering is not usually associated, contemporaneously, with the laying down of high-speed roads, and for that reason I think Professor Copland will agree that books subsequent to the one, the first of the series, which he chooses to criticise on these grounds, have devoted a good deal of attention to making clear obscurities which appeared in earlier efforts. The subject is, admittedly, a difficult subject, involving many subtleties, both of thought and language, and I confess to a certain amount of satisfaction that large numbers of widely-separated readers of the books to which Professor Copland refers, have succeeded during the past fourteen years in grasping the meaning which they were intended to convey, although, unfortunately, he is apparently not amongst them.

While, for convenience, the English banking system is used for reference, no substantial error is introduced by applying the arguments to Australia.

SECTION II.

Professor Copland states as the essential doctrines of the Douglas Credit Theory, the following:—

1. The creation of credit.
2. The A plus B theorem, and saving.
3. Repetition of money payments increasing prices.
4. The just price and the price factor.
5. The supply of credit through *either* credits to producers *or* dividends for all.

I should not be disposed to join issue in regard to these statements, beyond remarking that they do not go far enough back. It would be more true to say that the whole of my views are based on certain fundamental propositions, of which, for the purpose of Professor Copland's criticisms, the three following are the more important:—(a) That financial credit pretends to be, but is not, a reflection of real credit as defined in (b); (b) Real credit is a *correct* estimate or, if it be preferred, belief as to the capacity of a community to deliver goods and services as, when, and where required; (c) That the cost of production is consumption. With these fundamental contentions, which are basic to my views, neither Professor Copland, nor Professor Robbins, deals.

It is convenient, however, to consider Professor Copland's five sub-divisions in the form in which he puts his criticisms, before taking the matter back to a more fundamental form.

The Creation of Credit.—Professor Copland's criticism appears to narrow down to a complaint that I have said that the cash in the banks is constant even though the amount of credit money varies. I find it difficult to reconcile this criticism with the assumption that Professor Copland has understood the simple mathematical reasoning which is used, and I think it is beyond question that he is confusing two mutually irrelevant matters. I have, of course, never said that the cash (by which in Great Britain is meant not merely "till" money, but deposits of the Joint Stocks Banks with the Bank of England) is constant in amount no matter what may be the amount of deposits which the banks acquire as the result of creating loans. The ratio of cash to loans, which is generally assumed to be about 1-10, but has at times dropped to 1-15, is simply a result of an actuarial estimate of the percentage of "till" money in a given country which is required to meet the ordinary habits of the population. On August 4th, 1914, as a result of a panic, the population of Great Britain suddenly demanded cash for an unusual proportion of its deposits, with the result that, in the ordinary meaning of the word, all the banks became bankrupt simultaneously. When the depositors had drawn out all the *cash*, about eight hundred millions of *deposits* remained, which were only satisfied by printing Treasury notes. That situation was a proof, if any proof was needed, of the proposition with which the mathematical proof criticised by Professor Copland is concerned. This merely demonstrates that every bank loan creates a deposit. What Professor Copland is saying is that, while every bank loan creates a *deposit*, the banks do not exercise this power beyond a certain point because they may become short of *cash*, which is perfectly true, but they do not normally become short of cash until they have created, say, nine new pounds for each original pound deposited by the public, although they *might*, as in 1914, become short of cash at any time. The only effect of Professor Copland's point,

which has never been at issue, is to shift the policy aspect of the matter back to the Bank of England, which has the power of actually creating cash. I have answered this criticism at length in courtesy to Professor Copland, but to paraphrase his own remarks in regard to me, as reported in the Australian Press at the time, I am surprised that an economist of Professor Copland's standing should have fallen into so elementary a confusion of thought. In regard to his second footnote, I can only say that, if he will explain how a manufacturer or farmer can *make* money as distinct from acquiring it from someone else, he can safely expect to be the most popular man in Australia.

SECTIONS III AND IV.

The A plus B Theorem, Saving, and the Repetition of Payments Increasing Prices

For the convenience of readers who have not Professor Copland's paper, or the book in which this theorem is contained, it is reprinted herewith:—"A factory or other productive organisation has, besides its economic function as a producer of goods, a financial aspect—it may be regarded on the one hand as a device for the distribution of purchasing power to individuals, through the media of wages, salaries, and dividends; and on the other hand, as a manufactory of prices—financial values. From this standpoint, its payments may be divided into two groups:—

"Group A—All payments made to individuals (wages salaries, and dividends).

"Group B—All payments made to other organisations (raw materials, bank charges and other external costs).

"Now, the rate of flow of purchasing power to individuals is represented by A, but since all payments go into prices, the rate of flow of prices cannot be less than A plus B. Since A will not purchase A plus B, a proportion of the produce at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the description grouped under A."

It is fortunate that the criticism of Professor Copland is practically contemporaneous with a criticism of the same theorem by Professor Robbins, as it is possible to use either of them to confute the other. It is, however, obvious that, at any rate, Professor Copland has not understood, what seems to me to be, its fairly simple language, and what are the consequences which might be expected as a result of its truth.

The A plus B theorem, then, may be said to be, first, an assertion that, under certain circumstances, almost universal in modern industry, which will subsequently be specified, purchasing power cannot be equal to prices, if purchasing power and prices are both considered as a flow, which is the commonly accepted and correct method of regarding the matter. The second aspect of the theorem is that it puts forward an explanation as to the mechanism through which this disparity is produced. Obviously, the correct method of approaching the subject, although not that commonly employed by professional economists, is first of all to ascertain if the situation does, in fact, confirm the theorem. Now, fortunately, or unfortunately, it is not necessary to seek very far for this confirmation. I do not suppose that Professor Copland, or any responsible student of the economic situation, would deny that it is concerned with a problem of glut, still less would he contend

that it was a problem of scarcity. It is admitted that we can produce all we want, but cannot buy or sell to the extent of our productive capacity. Without going over the well-known ground covered by the literature of sabotage, such as the burning of wheat as fuel because it cannot be sold or to keep up the price, the destruction of millions of bags of coffee, the shooting of calves on the Argentine plains, the restriction of rubber tapping, and merely emphasising that this glut of actual consumable products does not take into account the immense unused productivity represented by half-idle factories, large bodies of unemployed, decreasing cultivation of farm lands, and unused processes for increasing the productivity of agriculture, to name only a few of these aspects of the matter, it is quite certain that the introduction of mechanical power into the economic service of man has at least multiplied his productive capacity by the ratio of his muscular energy to the power at his disposal, that is to say, at least fifty times. It is highly probable that the multiplying factor is considerably greater than this. An association of American engineers and technologists at Columbia University remarks: "The advent of technology makes all findings based on human labour irrelevant, because the rate of energy conversion of the modern machine is many thousand times that of man. The total capacity of U.S. industrial equipment is one billion horsepower which does the work of ten billion men, or five times the earth's total population." Both from observation, therefore, and by scientific deduction, we are justified in regarding it as beyond all reasonable doubt that, from the realistic or physical point of view, the world actually is rich and could be much richer in real goods and services, and that economic want is an anachronism.

On the other hand, we may regard Governments as being spokesmen of the financial system, since it is by the sanction of Governments that the existing system is maintained. It is claimed by these governmental spokesmen that we are living in a period of great stringency, that financial economy is necessary, both of the voluntary or saving description and of the involuntary description, which may be for the present purpose described as taxation. Obviously, these two pictures cannot be at one and the same time true. We cannot be rich and poor, in an economic sense, simultaneously. That is to say, the financial system does not reflect the facts of the physical, economic, and production system. Since fact and logic both demonstrate that we are rich, while the financial system says that we are poor, it seems beyond dispute that it is purchasing power which is lacking, and not goods, or, in other words, that the collective prices of the goods for sale are in excess of the purchasing power available to buy them. Professor Copland seems to have some inkling of this in his first paragraph, in which he remarks that: "With many others, Major Douglas finds a disparity between consumers' spending power and production" (*sic*). I am not specially concerned with any claims to priority, and am, therefore, quite content to agree that I have an increasing body of acquiescence on this point, although I do not gather that Professor Copland admits it.

Turning to the specific criticism of the theorem, Professor Copland begins by remarking as follows: "Taking the first part of this argument, it is assumed that the so-called B payments are not distributed to consumers. This I believe to be the fundamental fallacy of the Douglas

Credit Analysis." I think I am justified in retorting to the second sentence just quoted that I think the first sentence is conclusive evidence that Professor Copland does not understand the Douglas Credit Analysis. The B payments to which he refers are specifically stated in the enunciation of it, to be payments made from one producing organisation to another, and are, beyond dispute, the completion of a cycle of cost accountancy. I trust Professor Copland will not consider me unduly elementary if I explain that a cost is created *either* by the application of paid labour to production *or* by the allocation of book costs in respect of previously-incurred expense, or by both together. Payments to labour distribute purchasing power to consumers, who supply the labour as workers, *and* create costs which go into prices of the goods that they produce. The allocation of book costs does not distribute purchasing power, but is the presentation of a claim on purchasing power *already distributed*, and is met, if it is met, by the inclusion of the sum claimed, in price. B payments are a *settlement* of the combined claim produced in this way at every separated stage of production.

Fortunately, Professor Copland, while ignoring the diagram on page 31* of *The Monopoly of Credit*, the book from which he is at the moment quoting, includes a diagram of his own, which confirms my belief. It will be noticed that in this diagram time is non-existent, and apparently, to Professor Copland, is of no importance. That I am not misrepresenting him is, I think, proved by his remark, on page 16 of his pamphlet, that it is "not relevant to the point at issue" that "spending power distributed two years ago is not available for consumption to-day. The several stages of production are in progress at the same time."

Let us suppose that production is divided into five processes, all of them in progress at the same time. Each of these five processes pays its workmen weekly, and each pays £10 in wages. Each one of the factories carrying out the five processes allocates 100 per cent. on to its direct labour in the form of book charges, which is a very moderate average overhead charge. For the moment we will leave out payments for materials. The total amount of wages distributed in the week is £50. It seems to me to be merely perverse, to deny that the price values or claims on the public created in that week are £100 while the purchasing power distributed is only £50. When factory No. 4 sells its weekly output to factory No. 5, it sells it for £80 and factory No. 5, if it can sell at all, sells for £100. If Professor Copland cannot show me a week in which, in the normal operation of the cost system, this process is not going on, the only question at issue is whether the £50 of overhead charges still exist in the form of purchasing power. It is not merely relevant; it is the major portion of the problem. I might remark that if he can show me a factory which does not allocate book charges, I will show him a factory which is heading straight to bankruptcy.

In order to decide this question, we have to examine the nature of the overhead charges, how they were created, and what financial processes have been associated with them. To make the matter as simple as possible, I shall, for the moment, assume that overhead charges are nothing but charges for the use of buildings and plant, and at a later stage explain how this definition can be extended.

*Page 37 of the third, revised, edition, 1951.

Before, then, each of the factories in the above illustration could commence operation, it had to be built and equipped with machinery. There are two methods by which this operation could have been financed. The first is that it could have been financed out of savings, the method commonly suggested by orthodox financial authorities as that by which capital expenditure is financed. It is very questionable whether much modern finance is done in this way. Assuming this course to be pursued, the money to buy the plant must have appeared in the cost of some previous product, and therefore its mere saving causes a deficiency of purchasing power to that extent. If it is now applied to pay the wages, *etc.*, necessary to produce the new buildings and plant, quite obviously these new buildings and plant are produced without the creation or distribution of any fresh purchasing power. In other words, the money creates a second price value, but does not produce any fresh money. This is the simplest, but by no means the only, example of a sum of money appearing more than once in series or chain production, and producing a *cost* on each occasion without creating fresh purchasing power.

From the ordinary point of view, the people who put up the money are legitimately entitled not only to a profit on this money, but also to get it back again in full, since in their case the money may be assumed to represent past effort, so that the factories in question must make a charge on each article turned out which will provide the money to meet these claims. The only objection to this perfectly fair assumption is that, in the aggregate, the public have not got the money.

The second method, and probably the method by which most modern financing is done, under cover of a smoke screen provided by comparatively small subscriptions from the public, is that some financial institution actually creates the money, taking debentures on the new factories as security. Ethically, there is every difference between money created by a stroke of the pen and money acquired as the result of years of effort, but I am not at the moment concerned with ethics. At first sight it is a better method, considered as an isolated operation. When the new factories come into existence, new money is distributed to the men who built the factories. But there are two practical objections, leaving aside any question of ethics. The new money or credit is claimed by the financial institution as its property, and therefore when it is lent, creates a debt against the public. At the same time, being distributed in advance of consumable goods, it tends towards true inflation. The debt differs in nature from the debt created by private finance in exactly the same way that a debt to foreigners differs from an internal debt—its repayment actually takes money out of the country. If a rise of prices has occurred, it is repaid twice over, once in increased prices and again on redemption. Secondly, there is no provision in this method of financing for the money required to pay the interest on the debentures, which in fact, can only be paid, if it is paid, by the issue of fresh money to pay it, which, under existing circumstances, comes from the same source, that is to say, the financial system. From this point of view, it is the difference between usury and profit—a difference clearly drawn in the Middle Ages. There is an additional factor, perhaps more important than any of these, and that is that, either by directly calling in the debentures

or by selling the debentures to the public and calling in public overdrafts, financial institutions can, and most unquestionably do, recall the money equivalent to the plant value at a greater rate than this plant depreciates.

It is therefore, I think, incontestable that, either wholly or in part, the purchasing power to pay overhead charges on a scale which is legitimate from the plant owner's point of view does not exist, except in times of wholly excessive capital production or quite abnormal exportation.

It is now necessary to see to what extent this conception of overhead charges can be extended, and I think that a little consideration will make it clear that in this sense an overhead charge is any charge in respect of which the actual distributed purchasing power does not still exist, and that practically this means any charge created at a further distance in the past than the period of the cyclic rate of the circulation of money. There is no fundamental difference between tools and intermediate products, and the latter may therefore be included. Admittedly, at this point we get into a certain difficulty, both to ascertain the average rate of circulation of money, and the antiquity of the various charges made, but the disparity is so great that, qualitatively, there is no difficulty in proving the point.

In Great Britain, for instance, the deposits in the Joint Stock Banks are roughly £2,000,000,000. In rough figures, the annual clearings of the clearing banks amount to £40,000,000,000. It seems obvious that the £2,000,000,000 of deposits must circulate twenty times in a year to produce these clearing-house figures, and that therefore the average rate of circulation is a little over two and a half weeks. At this point it may be desirable to deal with the common error that the circulation of money increases its purchasing power, an error which seems implicit on page 19 of Professor Copland's pamphlet, where he remarks: "A given unit of money will circulate many times in a unit of time. It will make many payments, because it has what economists call velocity of circulation." I think that what Professor Copland means by this is that, if I pay £1 to the butcher for meat and the butcher pays the £1 to the baker for bread which the baker has supplied to the butcher, then two debts are liquidated. This is a complete and major fallacy. The butcher incurred costs, perhaps from a farmer in respect of cattle supplied, who in his turn possibly borrowed the £1 from a bank. In any case, if the butcher uses my £1 to pay the baker, he has broken the chain of repayment from me to the farmer, and ultimately to the banker, and the costs which were created when the farmer sold his cattle to the butcher are not liquidated. The clearing-house figures just quoted contain a large number of "butcher-baker" transactions, and these must be deducted in estimating circulation rates. The vital fact is, of course, that one unit of money can circulate an indefinite number of times through the costing system, in each case creating a fresh cost or, if it be preferred, a fresh debt charge, but not fresh purchasing power. It is, perhaps, unnecessary to contend that the average antiquity of the debt charges against the population is more than two and a half weeks. It is certainly a considerable number of years, but it would be difficult to say exactly what it is.

(To be concluded)