THE DOUGLAS MANUAL

being a recension of passages from the works of
MAJOR C. H. DOUGLAS

Outlining

SOCIAL CREDIT

compiled by
PHILIP MAIRET

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FOREWORD

THE aim of this handbook is to provide a completely representative and authoritative statement of the principles of the New Economics formulated by Major Douglas in a single volume of extracts taken from Major Douglas's own writings. The arrangement is designed to present, in an order convenient for reference, the main principles of this system of economic thought, and at the same time to serve as an introduction for the general reader.

Although this compilation has had the author's full approval I must accept full responsibility for any defects in either the arrangement or the text. For any of its merits, on the other hand, I beg to acknowledge the valuable advice and assistance of Mr. D. Benton Riddett (author of *Monetary Policies)* throughout most of its preparation. My thanks are also due to Messrs W. W. Norton, Company Inc., New York, to Messrs Chapman and Hall and to the Unicorn Press for permission to quote at length from *Social Credit, The Monopoly of Credit* and *Warning Democracy* respectively; and to Mr. A. R. Orage for his initiation of the idea.

PHILIP MAIRET

BOOKS AND PAMPHLETS

by

MAJOR C. H. DOUGLAS

Economic Democracy Stanley Nott
Credit-Power and Democracy Stanley Nott
Social Credit Eyre & Spottiswoode
The Control and Distribution of Production
Stanley Nott
The Monopoly of Credit Chapman & Hall
Warning Democracy Stanley Nott

PAMPHLETS

These Present Discontents .... Cecil Palmer
The Breakdown of the Employment System
..........Manchester Economic Research Association
The New and the Old Economics
....The Scots Free Press
The Douglas Theory .... Cecil Palmer
The Nature of Democracy .... Stanley Nott
The Use of Money .... Stanley Nott

REFERENCES TO BOOKS QUOTED

TITLE IN FULL WITH ABBREVIATION USED

The Monopoly of Credit (Monop of Cr)
The Control and Distribution of Production (C and D of Prod)
Credit-Power and Democracy (Cr P and Dem)
Social Credit (Soc Cr)
Economic Democracy (Ec Dem)
The Breakdown of the Employment System (B of Em Syst)
These Present Discontents and the Labour Party (TPD & LP)
Warning Democracy (Warn Dem)
The New and the Old Economics (N & O Econ)
Macmillan Report[1] *(Mac Rept)*

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[1] Minutes of Evidence taken before the Committee on Finance and Industry, 1930, Chairman the Rt. Hon. H. P. Macmillan, K.C. References in this book are to the Statement of Evidence submitted by Major Douglas, also reprinted as an appendix to the *Monopoly of Credit*.

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THE BREAKDOWN OF TRADE

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Distribution of Co-operative Production

THE distinguishing feature of the modern co-operative production system, depending for its efficiency on the principle of the division of labour, is that the production of the individual is in itself of decreasing use to him, as the sub-division of labour and process is extended. A man who works on a small farm, can live (at a very low standard of comfort and civilization) by consuming the actual products of his own industry. But a highly trained mechanic, producing some one portion of an intricate mechanism, can only live by casting his product into the common stock, and drawing from that common stock, a portion of the combined product through the agency of money.

Social Credit 131.

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.

Warning Democracy 15.

Money is only a mechanism by means of which we deal with things—it has no properties except those we choose to give to it. A phrase such as "There is no money in the country with which to do such and so" means simply nothing, unless we are also saying "The goods and services required to do this thing do not exist and cannot be produced, therefore it is useless to create the money equivalent of them." For instance, it is simply childish to say that a country has no money for social betterment, or for any other purpose, when it has the skill, the men and the material and plant to create that betterment. The banks or the Treasury can create the money in five minutes, and are doing it every day, and have been doing it for centuries.

The Control and Distribution of Production 9-10.

In order to meet the primal necessities, men work for money, having always at the back of their mind that so much money represents so much satisfaction of primal needs. It should be particularly observed that it is this faith, this credit, which gives money its value, and it is therefore true to say that all money is, or is fundamentally dependent upon, credit.

These Present Discontents and the Labour Party 8-9.

Definition of Money

Money in its various forms of cash and financial credit, so far as they are convertible, has been defined by Professor Walker in his *Money, Trade and Industry* 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. So long as this definition holds good, it is obvious that the possession of money, or financial credit convertible into money, establishes an absolute lien on the services of others in direct proportion to the fraction of the whole stock controlled, and further that the whole stock of financial wealth inclusive of credit, in the world, should by the definition be sufficient to balance the aggregate book price of the world's material assets and prospective production.

Economic Democracy 28.

Wealth and Money independently produced

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.

Warn Dem 128.

Purchasing power is not, as might be gathered from the current discussion on the subject, an emanation from the production of real commodities or services much like the scent from a rose, but on the contrary, is produced by and entirely distinct process, that is to say, the banking system.

Monop of Cr 23.

There is extant in the world, a common, if somewhat nebulous, idea that whoever, for instance, grows a ton of potatoes grows thereby in some mysterious way, the purchasing power equivalent to a ton of potatoes. . . . If I grow a ton of potatoes and exchange these potatoes for five currency notes of one pound each, held at the moment by my neighbor next door, all that has happened is that I have five pounds which he had before. My ton of potatoes has not increased the number of pounds, although it *may* have, but probably has not, increased the purchasing power of each pound. If we imagine this five pounds to be the only five pounds in existence, and money to be the only effective demand for goods, no one will be able to exchange any goods until I part with, at any rate, a portion of my five pounds.

Soc Cr 130-131.

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.

Warn Dem 129.

Money not a Measure of Value

There are few people who would claim that the money systems of the world are perfect, and the number of such persons is decreasing daily. But when asked to define the various defects in the money system, it is quite remarkable to notice with what monotonous regularity the ideas of 'justice' and 'value' are paraded. It is claimed that money is defective because it is not an accurate measure of value, or that it results in an unjust 'reward' for labour, but when such critics are asked to suggest a method by which the relative value of a sunset, and say, the Venus di Milo might be assessed, on the one hand, or, on the other hand, what is the 'just' return for a given amount or variety of labour, their answers are not usually very helpful from a practical point of view.

Soc Cr 60.

Perhaps the most important fundamental idea which can be conveyed at this time, in regard to the money problem—an idea on the validity of which certainly stands or falls anything I have to say on the subject—*is that it is not a problem of value measurement. The proper function of a money system is to control and direct the production and distribution of goods and services*. It is, or should be, an 'order' system, not a reward system. It is essentially a mechanism of administration, subservient to policy, and it is because it is superior to all other mechanisms of administration, that the money control of the world is so immensely important.

Soc Cr 61-62.

Money is properly the agent of Distribution

The analogy of the 'Limited' railway ticket is for all practical purposes exact, a railway ticket being a limited form of money. The fact that a railway ticket has money-value attached to it is entirely subsidiary and irrelevant to its main function, which is to distribute transportation. A demand for a railway ticket furnishes to the railway management a perfect indication (subject, at present, to financial limitations) of the transportation which is required. It enables the programme of transportation to be drawn up, and the availability of a ticket issued in relation to this programme enables the railway traveller to make his plans, in the knowledge that the transportation that he desires will probably be forthcoming.

Soc Cr 62.

The measurement of productive capacity takes place, or should take place, in regions other than those occupied by the ticket office, or its financial equivalent, the bank; and the proper business of the ticket department and the bank is to facilitate the distribution of the product in accordance with the desires of the public and to transmit the indication of those desires to those operating the industrial organization, to whom is committed the task of meeting them. They have no valid right to any voice in deciding either the qualifications of travellers, or the conditions under which they travel.

Soc Cr 63.

The Remedy for Shortage of Money

We have to realize that there exists, and is being exercised for anti-social purposes, a monopoly of the ticket supply, without which distribution cannot be carried on. That monopoly has to be broken. How it is to be broken is a very serious problem, a problem which has got to be faced and solved, or the civilization with which we are acquainted will shortly cease to exist.

The Breakdown of the Employment System 9-10.

You will no doubt be anxious to know the 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. 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.

Warn Dem 133.

MONEY AND CREDIT

The Quantity of Money

It is necessary to be clear as to the origin of what passes for money, and to understand the remarkable powers which are vested in the banking system and the financier. Consider first legal tender, which in this country, consists of gold, silver, and copper coinage, and Treasury notes to the approximate value of, say, £400,000,000. It may be noticed, in passing, that this money has value only by the consent of the community of individuals we call the nation; that is to say, by their willingness to accept it in exchange for goods and services. It will at once be obvious, from a superficial examination of the accounts of the banks, that there is a good deal more money in the country than there is legal tender. The deposits of the "Big Five" banks and their affiliations alone represent about £2,000,000,000, and overdrafts and bills discounted represent about £1,000,000,000 more. For practical purposes, all this money is homogeneous—the average individual would draw no vital distinction between ten pounds in his pocket-book and ten pounds in his current account with one of the great banks. But it must also be obvious, on a little consideration, that something curious must have happened to enable, say, £400,000,000 of legal tender to become at least £3,000,000,000 of money, because, as far as can be seen on a cursory examination of the phenomenon, however much £400,000,000 changes hands in the course of trade, it still remains £400,000,000. Something curious does happen—it is the creation of new money, which ranks equally with legal tender as purchasing power, by banks and financial institutions.

B of Em Syst 6-7.

Mechanism of Credit Creation

*S*ince the mechanism by which money is created by banks is not generally understood, and the subject is obviously of the highest importance, it may be as well to repeat here an explanation of the matter. Imagine a new bank to be started—its so-called capital is immaterial. Ten depositors each deposit £100 in Treasury Notes with this bank. Its liabilities to the public are now £1,000. These ten depositors have business with each other and find it more convenient in many cases to write notes (cheques) to the banker, instructing him to adjust their several accounts in accordance with these business transactions, rather than to draw out cash and pay it over personally. After a little while, the banker notes that only about 10 per cent of his business is done in cash (in England it is only 0.7 of 1 per cent), the rest being merely book-keeping. At this point depositor No. 10, who is a manufacturer, receives a large order for his product. Before he can deliver, he realizes that he will have to pay out, in wages, salaries, and other expenses, considerably more 'money' than he has at command. In this difficulty he consults his banker, who, having in mind the situation just outlined, agrees to allow him to draw from his account not merely his own £100, but an 'overdraft' of £100, making £200 in all, in consideration of repayment in say, three months, of £102. This overdraft of £100 is a credit to the account of depositor No. 10, who can now draw £200. . . .

The Power of the Banker's Pen

The banker's liabilities to the public are now £1,00, none of the original depositors have had their credits of £100 each reduced by the transaction, nor were they consulted in regard to it, and it is absolutely correct to say that £100 of new money has been created by a stroke of the banker's pen.

Depositor No. 10 having happily obtained his overdraft, pays it out to his employees in wages and salaries. These wages and salaries, together with the banker's interest, all go into costs. All costs go into the prices the public pays for its goods, and consequently, when depositor No. 10 repays his banker with £102 obtained from the public in exchange for his goods, and the banker, after placing £2, originally created by himself, to his profit and loss account, sets the £100 received against the phantom credit previously created, and cancels both of them, there are £100 worth more goods in the world which are immobilized—of which no one, not even the banker, except potentially, has the money equivalent.

Monop of Cr 16-17.

Definitions of Credit

Real Credit is a correct estimate of the rate, or dynamic capacity, at which a community can deliver goods and services as demanded.
Financial Credit is ostensibly a device by which this capacity can be drawn upon. It is, however, actually a measure of the rate at which an organization or individual can deliver money. The money may or may

not represent goods and services.

C and D of Prod 10.

Financial credit is simply an estimate of the capacity to pay money—any sort of money which is legal or customary tender; it is not , for instance, an estimate of capital possessed; and its use as a driving-force through the creation of credit is directly consequent on this definition. The British banking system, since the Banking Act of 1844, has based Its operations on the ultimate liability to pay gold, but in actual fact the community, as a whole, has dethroned gold, and bases its acceptance of cheques and bills on its estimate of the bank credit of the individual or corporation issuing the document, and for practical purposes not at all on the likelihood that the bank will meet the document with gold. This bank credit simply consists of certain figures in a ledger combined with the willingness of the bank to manipulate those figures, and at call to convert them into legal tender. What, then, is likely to induce a bank to increase the credit by the creation of loans, *etc*., of an applicant for that favour? The answer is contained in the definition: the capacity to pay money; and the credit will be extended absolutely and solely as the officials concerned are satisfied that this condition will be met.

C and D of Prod 52-53

Centralized *financial* credit is a technical possibility, but centralized *real* credit assumes that the desires and aspirations of humanity can be standardized, and ought to be standardized. Since financial credit derives its power from its nexus with real credit (a correct estimate or belief of the individual that something *desired* will be delivered), centralized financial credit-control will break up this civilization, since no man, or body of men, however elected, can represent the detailed desires of any other man, or body of men.

Cr P and Dem 57-8.

True Function of Credit in a Modern Economy

There is no doubt whatever that the first step towards dealing with the problem is the recognition of the fact that what is commonly called credit by the banker is administered by him primarily for the purpose of private profit, whereas, it is most definitely communal property. In its essence it is the estimated value of the only real capital—it is the estimate of the *potential* capacity under a given set of conditions, including plant, *etc*., of a society to do work. The banking system has been allowed to become the administrator of this credit and its financial derivatives with the result that the creative energy of mankind has been subjected to fetters which have no relation whatever to the real demands of existence. . . .

Now it cannot be too clearly emphasized *that real credit is a measure of the reserve of energy belonging to a community and in consequence drafts on this reserve should be accounted for by a financial system which reflects that fact*.

Ec Dem 120-121.

We have already seen that the only possible basis of *real* credit is a belief, amounting to knowledge, in the correctness of the credit-estimate of a society, with all its resources to deliver goods and services at a certain rate. If we make this basis our *financial* basis, then the credit-structure erected on it can only be destroyed by social suicide—by the refusal of the community to function. Now, one of the components of the capacity of a society to *deliver* goods and services *is the existence of an effective demand* for those goods and services. It is not the very slightest use, under existing conditions, that there are thousands of most excellent houses vacant in this country, when the cost of living in them totally exceeds the effective financial demand of the individuals who would like to live in them. The houses are there, and the people are there, but the delivery does not take place. *The business of a modern and effective financial system is to issue credit to the consumer, up to the limit of the productive capacity of the producer, so that either the consumer's real demand is satiated, or the producer's capacity is exhausted whichever happens first.*

Cr P and Dem 106-7.

PART II

THE FINANCIAL SYSTEM

The Gold Standard

The difficulty in dealing with the subject of the Gold Standard arises largely from the fact that it has never at any time been what it pretends to be. Originally gold itself was supposed to represent the only true and universally accepted claim for goods. Previously to 1914 the gold sovereign circulated freely in Great Britain, and the illusion of a gold currency was fairly successful. Within two days of the outbreak of war in 1914, however, the available stocks of gold sovereigns had been withdrawn from the banks by depositors who imagined that in this way they were safe- guarding their possessions, with a result that it was necessary to declare a moratorium, during the progress of which, Treasury Notes of a face value of £1 and 10s. were printed in large numbers and handed over to the banks for issue to their depositors. The fact that the Gold Standard was a fraudulent standard was demonstrated in twenty-four hours.

Monop of Cr 50-51.

The theory of the Gold Standard £ is that it represents 113 grains of fine gold, or conversely that gold will always be bought by the Bank of England at 84s. an ounce. Since, *e.g.* a United States dollar also represents a fixed quantity of gold (about 23 grains) the value of one gold currency in terms of another is assumed to be approximately stable. To prevent the possibility of gold being acquired to any extent by other than financial institutions, the statute by which Great Britain was restored to a gold basis of currency enacted that not less than a standard gold bar worth about £1,700 would be delivered on demand.

In order that the exchange may theoretically indicate the balance of trade, the limits at which a Central Bank must buy or sell gold are laid down.

'Standard' gold (eleven-twelfths fine) has a minimum and maximum price of £3 I7s. 9d. and £3 I7s. 10½d. respectively. The actual point at which it pays to buy gold for shipment obviously varies with shipment rates, insurance, and interest. *Monop of Cr* 55-6.

Effects of the Gold Standard

Owing to the immense pyramid of purchasing power erected on a small gold base, exports of gold produce money stringency of a violent character out of all proportion to the amount exported, and bearing no relation either to productive capacity or physical demand.

The result of the reversion to the Gold Standard in Great Britain is a matter of common knowledge, but certain aspects of it can be grasped conveniently from the curves on page 31.

Monop of Cr 57.

It has been pointed out, by Mr. Arthur Kitson and others, that since this credit structure is based on gold, which bears no conceivable relation in quantity to any human requirement for goods and services, gold production exercises a totally disproportionate effect on the mechanism of prices and credit. But the difficulty goes much deeper than that. Not only does the gold basis of the present financial system shift, but the ratio of the credits erected on it also shifts–sometimes violently. This is, of course, due to the vital fact that *the public even under a gold basis of credit could utterly destroy the whole credit structure by demanding gold in payment of their cheques on the banks*, because the basis of present cash credits is that they are convertible into currency on demand, and there is, of course, not a tithe of the gold necessary to cash them.

Cr P and Dem 104-105.

Effects of Departure from the Gold Standard

But although the gold basis has gone, the simulacrum of it still lingers in the shape of a credit system based on an unregulated paper currency, with the result that a sort of Druid's dance of credit-issue, rising prices, currency stringency, currency issue, more credit based on more currency, goes on, the only possible redeeming feature of which is to take the whole cycle right away from the fetish of gold. Apart from this one point, everyone suffers except those whose business it is, in the most literal sense of the words, to make money. So much for the conditions brought about by a financial system which attempts to base its credits on the currency, and yet allows its prices to rise with both.

Cr P and Dem 105-106.

The Gold Exchange Standard

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 per cent, 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.

Warn Dem 45-46.

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.

Warn Dem 46.

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.

THE FUNCTION OF THE BANKS

There exists in civilized society in all countries to-day an institution whose business it is to issue money. This institution is called a bank. The banking business is in many respects the exact opposite of the Social Reform business—it is immensely powerful, talks very little, acts quickly, knows what it wants, chooses its employees wisely in its own interests.

C and D of Prod 46.

The fundamental proposition of the modern Banking system is that the basis of credit is currency.

Monop Cr 49.

Now the vital thing done by a bank in its financing aspect is to mobilize effective demand.

The effective demand is that of the public, based on the money of the public, and the willingness of producers to respond to economic orders; but the paramount policy which directs the mobilization is anti-public, because it aims at depriving, with the greatest possible rapidity, the public of the means to make its demands effective; through the agency of prices.

C and D of Prod 47.

Just as the manufacturer only receives a loan from the bank, which has to be repaid, so also does the workman, who is paid by this manufacturer, only receive a loan in the form of wages, which loan is repaid by him in the form of prices.

B of Em Syst 9.

It would appear indisputable that all but an insignificant amount of effective demand is dependent for its financial component on bank loans in various forms. It will be hardly necessary to remark that the only value of these bank credits is contingent on the willingness of the industrial community to produce and supply goods and services in exchange for them. While it is conceivable that an industrial system might operate without money, it is inconceivable that a money system could operate without an industrial system.

Mac Rept.

Quantity of Money depends upon Bank Policy

Ultimately the amount of money in the community depends not on the action of producers, but on the policy of the banking system, and leaving for the moment aside all questions of high politics, the banker, being essentially a dealer in a commodity called money, is fundamentally concerned to make that commodity as valuable as possible. He is normally a deflationist, since low prices mean a high value for the monetary unit, and facilitate not only the internal business of the banks, but their foreign exchange operations which are regarded by them as of greater importance.

Monop of Cr 47-8.

A Vital Function in Production

When a bank allows a manufacturer an overdraft for the purpose of carrying out a contract or a production programme, it performs an absolutely vital function, without which production would stop. If you doubt this, consider for a moment the result of a rise in the bank rate of interest on loans and you will see that the power to choke off producers by taxing them at will is essentially similar to that exercised by governments on consumers by orthodox taxation, with the vital difference that in the first case a purely sectional interest is operating uncontrolled by society, whereas in the second case the power undoubtedly exists, though ineffective because misunderstood, to control it in the general interest.

C and D of Prod 46-7.

Banks Create and Destroy Money

As the situation stands at present, the banker is in a unique position. He is probably the only known instance of the possibility of lending something without parting with anything, and making a profit on the transaction, obtaining in the first instance his commodity free.

B of Em Syst 8.

'Every bank loan creates a deposit and the repayment of every bank loan destroys a deposit.'[1]

Since, rather surprisingly, there are certain orthodox economists who are not prepared to admit this statement, I attach a simple mathematical proof which would appear to put the matter outside the range of discussion.

Let Deposits = D
Let Loans = L
Let Cash in Hand = C
Let Capital = K

Then:

Assets = L+C
Liabilities = D+K

So that:

L+C =D+K

Differentiating with respect to time we have:
dL/dt + Cd/dt + dD/dt, K being fixed dK/dt = 0.

Assuming cash to be fixed dC/dt = 0.
Therefore dL/dt = dD/dt

It would, perhaps, be misleading to describe this ingenious process as wholesale counterfeiting, as since the Bank Act of 1928 the State has

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[1] Mr. McKenna, Chairman of the Midland Bank, has put the matter shortly in his annual addresses to the shareholders of that institution remarking that 'every bank loan and every purchase of securities by a bank creates a deposit, and the withdrawal of every bank loan, and the sale of securities by a bank, destroys a deposit'. It may be noted in passing, that this is the same thing as saying that a bank acquires securities for nothing, in the same way that a Central Bank, such as the Bank of England, may be said to acquire gold for nothing. In each case, of course, the institution concerned writes a draft upon itself for the sum involved, and the general public honours the draft by being willing to provide goods and services in exchange for it.

Monop of Cr I5.

resigned its sovereign rights over Finance in favour of the international private organization known as the Bank of England.

Mac Rept.

Recent Development and Abuse of Banking

An examination of the lesser financial crises which have been a feature of the twentieth century strengthens the impression that there is something in the banking system and its operation, which produces a constitutional inability to look at the industrial system as anything other than the basis of a financial system. To the banker, the satisfactory conditions of industry at any time are those which make the banking system work most smoothly. It cannot be made to work smoothly; it must be made to work, even though in the process every other interest is sacrificed.

Monop of Cr 74.

Deflationary Policy

Since 1920 the policy pursued in Great Britain under the leadership of the Bank of England has been continuously restrictive, that is to say directed to the reduction of the amount of money available to back orders. This policy has been termed 'deflationary', but it is open to considerable doubt whether the term is justified. It is applicable, correctly, to a situation in which prices and money are decreased in such a manner that the purchasing power of the unit of money rises in the same proportion that its total quantity is decreased. This condition has not been fulfilled, as the amount of money in the hands of the public has been decreased by taxation and by other methods at considerably greater rate than prices have fallen. While the upper limit of prices follows approximately the quantity theory of money, the lower limit is governed by cost of production. The outcome of this set of circumstances has been to restrict production, to force down the price of real property, and to enrich the moneylenders and insurance companies at the expense of the individual and the producer.

Mac Rept.

Effects of Post-War Finance

Since for every seller there must be a buyer, the situation which has been created by the numerous and increasing number of bankruptcies and forced sales merits some attention. The momentum of business induces business undertakings to carry on to a point considerably beyond that justified by their unmortgaged liquid resources, even assuming that their transactions have been financed normally in this way. As a result of this, and as indeed might be expected from the control over the money system acquired by the banking institutions, it is probably true to say that in Great Britain, 90 per cent of trade and business has in ten years come into the possession or control of banking interests. Such a tremendous transfer of ownership has probably never occurred in recorded history.

Monop of Cr 57-58.

I would particularly ask you to note that there is no suggestion that bankers, as human beings, are in the main actuated by any anti-social policy—the system is such that they simply cannot help the result.

C and D of Prod 47.

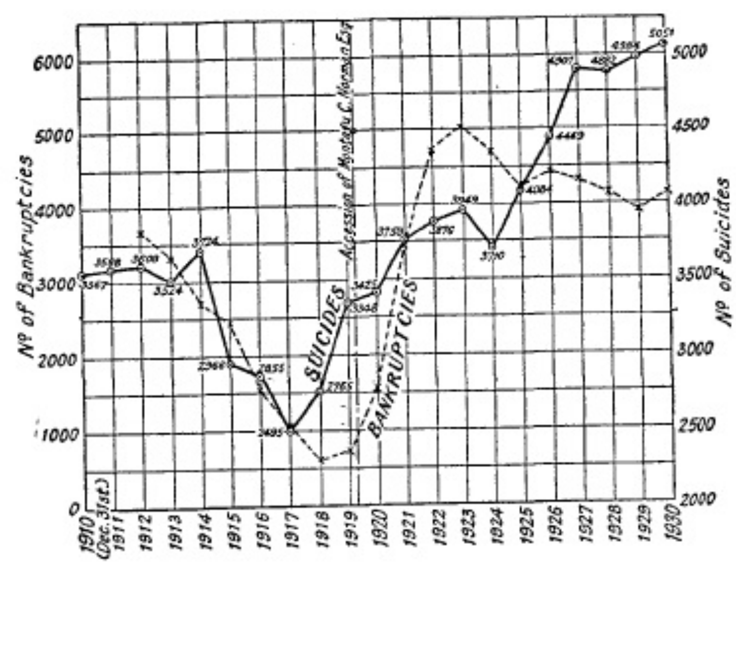
The banker *per se* has not, in general, technical knowledge outside the routine of banking. On two notable occasions the heads of large banking institutions, one in Canada (Sir Frederick Williams-Taylor of the Bank of Montreal) and the other in England (Mr. Montagu Norman of the Bank of England) have replied to questions regarding the results to be expected from current banking policy in almost identical terms, to the effect that they were bankers, not economists, a contention which, viewed in the light of events, seems to be true.

Monop of Cr 58.

Bank Ownership of Industry

The bankers' immediate reaction to the day-by-day acquisition of large businesses has been to put them under the control of chartered accountants, with the result that a financial result rather than a physical result has been aimed at. Plant has been broken up, since its operation could not be justified by the profits to be expected under existing circumstances (even though its physical product was urgently required), buildings, with the exception of those erected for the use of financial institutions, have been cut down both in quality and design with disastrous results to the amenities of the country at large, agricultural properties have deteriorated, and technical enterprise has been stifled.

Monop of Cr 59.



The curves marked 'Exhibit A', attached to this section, indicate the business and psychological effect in Great Britain of the policy which has been pursued. During the period covered by the curve, in which the bankruptcies have risen from about 900 per annum to nearly 7,000 per annum, and the suicides have increased over the whole of the kingdom by 67 per cent per annum, and in Scotland by 100 per cent, every large bank in Great Britain has maintained or increased its dividend, has enormously expanded its premises, and placed large sums to its visible reserve, and created still larger invisible reserves, and this in spite of the enormous losses alleged to have been made in respect of loans to industry.

Mac Rept.

Immunity of Banks from the Depression

It cannot have escaped notice that every bank composing the charmed Circle of Five has pulled down its barns to build larger. The London City and Midland, to take one instance only, now has fifteen hundred branches, of which, at a guess, at least one half have been opened since 1914 in buildings of a solid magnificence appropriate to the temples of a great faith. Perhaps one of our readers with a taste for statistics will compile a table showing the percentage of corner sites occupied by banks as compared with those occupied by other undertakings. Has anyone during this time of industrial depression and labour distress noticed any bank premises for sale? Is there any possible room for doubt, not merely who did best out of the War, but is doing well out of the peace?

C and D of Prod 147-8.

It may be asked why banks only pay a dividend of 25 per cent or so. The answer is simple. Their real earnings are measured by the control over industry which they acquire—earnings so rapid that in a few years the control will be absolute, if not checked. The amount distributed in dividends is, or could be, any desired dividend on this capital control.

Soc Cr 164.

TAXATION AND THE BALANCED BUDGET

A fundamental axiom of national finance as at present conducted, is that budgets must be balanced, by which is meant that all Governmental expenditure must normally be recovered from the individuals in the country by means of taxation.

Monop of Cr 41.

In the case of a nation, as at present situated, all the alleged services which it renders to the public composing it are supposed to be paid for eventually by taxes, and the objective of every orthodox government is to balance its budget and to repay its 'borrowings. That is to say, to make its receipts in taxation equal or exceed its expenditure, and in addition to have as large a surplus as possible with which to pay the interest on loans created by the financial hierarchy and to 'sustain the nation's credit' in view of future loans.

Soc Cr 47.

Just to the extent that the conditions in the world have improved in the past few years—and it must be admitted that this extent is quite limited—this improvement has been obtained by forcibly depriving those persons who, by adherence to the rules of the financial system, had acquired sufficient purchasing power to release them from the pressure of the control, for the partial benefit of those not so fortunate. In passing it may be noted how the power of taxation has grown into a form of oppression beside which the modest efforts of the robber barons of the Middle Ages must appear crude.

Monop of Cr 72.

Modern taxation is legalized 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 instil into the Labour Party that it is possible to obtain some sort of a millennium by accelerating the process of stealing.

Warn Dem 61.

Taxation in Great Britain

The British population, men, women, and children, are at the present time (1933) taxed to the figure of sixteen pounds seven shillings per head (or about sixty-five pounds per family), which is nearly three times the taxation per head of any other country in the world. Large estates are subject to succession and legacy duties which make it impossible for them to remain in private hands and force them into the market in which they are acquired by corporations having access to the methods of creating financial credit. These two forms of taxation are concurrent, *i.e.* the enormous Capital Levy imposed by Succession and Legacy Duties, *so far from reducing general taxation, has been accompanied by a steady rise in such taxation.*

Soc Cr 148.

Taxation Decreases Purchasing Power

The result is to create a shortage of money in the hands of the general public, and in consequence to enhance its scarcity value. If we can conceive, what is in fact the case under the existing financial system, that money is a commodity in exactly the same sense as is tea or sugar, and that there is a powerful, if unobtrusive business ring which deals in money as a commodity, it will be readily understood that the balancing of budgets and the repayment of loans by taxation is a prime interest of those interested in the commodity. Money dealers are normally deflationists.

Soc Cr 47-48.

Taxation tends to Centralize Power

The portion of this taxation which is represented by interest on public debts, created more or less in the manner outlined in the previous chapter, is onerous in proportion as its destination is centralized. . . . The chief owners of the bonded debt of Great Britain are the banks and financial houses.

Soc Cr 149.

The main tendency of the process is to concentrate the control of credit in a potential form in great organizations, and notably in the hands of the great banks and insurance companies.

Soc Cr 150.

Present-day finance and taxation is merely an ingenious system for concentrating financial power. No proposal to *redistribute the National Debt has ever received the slightest encouragement from Socialist leaders*.

Soc Cr 105.

The business of dealing in money as a commodity is, as has already been pointed out, advantaged by anything which accentuates the scarcity of money, so that any attack on the business system, the constructive effect of which is to support increased taxation, can and does receive support from the inner circles of High Finance. Since the greater part of the real purchasing power of the world is in a potential form which is not represented by any figures anywhere, but can be materialized by those in possession of the secret of the process, as and when required, taxation of visible purchasing power is exactly what is most valuable in maintaining their power and supremacy.

Soc Cr 91.

It is fair to say that almost any explanation which is not a full and accurate explanation of the working of the financial system, has the curious result of playing directly into the hands of the upholders of that system. The simple labour-socialist criticism, which emphasizes the contrast between the rich and the poor, forms a perfect moral sanction for the imposition of taxes on any portion of the community which is above the starvation level, since to the man who has only two hundred a year, the man with six hundred a year is rich. And it is perfectly logical on the theory that purchasing power is merely maldistributed, that Mr. J. A. Hobson should devote much of his attention also to taxation.

Soc Cr 90-91.

The Balanced Budget is a Claim of Credit Monopoly

It will be clear that the demand for a balanced budget is another form of the claim that all money belongs to the banks, and so far from being a reflection of the physical facts of production, is unrelated to them. Every modern community, so far as physical facts are concerned, is becoming richer year by year and this increase of riches could in fact be greatly accelerated, a fact which is indicated by a large unemployed population, and a manufacturing system with a capacity which, although already greatly in excess of present possibilities of sale, is daily being improved. It is equally obvious that so long as this demand for a balanced national budget is admitted, there can be no economic security, since it involves continuous application to the financial authorities for permission to live.

Monop of Cr 46.

Taking the situation as a whole, therefore, it seems indisputable that sooner or later this monopoly of money power has to be attacked; that for reasons already explained, it is not being attacked now, and that taxation, so far from attacking it, enormously strengthens and consolidates its power.

Soc Cr 176.

The Right Basis of Taxation

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.

Warn Dem 175-6.

LOANS AND THE NATIONAL DEBT

The taxation system is preferably considered in conjunction with the alternate method of providing money for public expenditure, which is by means of loans.

Mac Rept.

To a financier a country is simply something on which to base a mortgage. Just as a private estate which is not mortgaged is, to a moneylender, an excrescence on the landscape, so a country whose National Debt is not as large as is consistent with security is an object of solicitude to International Finance.

Soc Cr 149.

The inducement to subscribe to a loan consists in the interest paid on it, and in the varying terms of redemption. Taxation may properly be considered as being a forced non-repayable, recurring 'loan', a portion of the proceeds of which are used to pay the inducement offered to a voluntary loan. It is of importance to note that while the physical effects of spending money raised by taxation are exactly similar to those of spending money raised by a loan, in the latter case a financial asset is created, whereas in case of taxation no financial asset is created. One result of this is that, for instance, in Great Britain there is nothing corresponding to a capital account, its place being taken by the National Debt.

Mac Rept.

War Loan

The £8,000,000,000 in round numbers which have been subscribed for war purposes represents as to its major portion (apart from about £1,500,000,000 re-lent) services which have been rendered and paid for, and in particular, the sums paid for munitions of all kinds, payment of troops and sums distributed in pensions and other doles. Now, the services have been rendered and the munitions expended, consequently, the loan represents a lien with interest on the future activities of the community, in favour of the holders of the loan, that is to say, the community guarantees the holders to work for them without payment, for an indefinite period in return for services rendered by the subscribers to the Loan. What are those services?

Disregarding holdings under £1,000 and reinvestment of pre-War assets, the great bulk of the loan represents purchases by large industrial and financial *undertakings who obtained the money to buy by means of the creation and appropriation of credits at the expense of the community, through the agency of industrial accounting and bank finance*.

Ec Dem 122-123

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[1] An extended analysis and exposure of British War Finance for the Great War is to be found in Major Douglas's *Social Credit*, Chapter V.

It would be, I suppose, admitted without much hesitation that Great Britain as a community was poorer by the amount of this debt. On the other hand, each holder of War Loan would regard himself as being richer by the amount of the War Loan which he holds. Both of these statements are, of course, true, and if the Debt were held equally by individuals it would simply represent a licence to work, using National Real Capital. But the debt having been originally created by the same process which enables the banking system to create money, and so far as it is in the hands of the public, exchanging this debt so created for purchasing power already in existence, it is a transfer of purchasing power from the public to the Banks. It is probable that the amount of War Debt actually owned by individuals has never exceeded 20 per cent of the total debt created, the remaining 80 per cent being either in the actual ownership, or under lien to banks and insurance companies, the net result of the complete process being the transfer to the Financial System of four-fifths of the purchasing power represented by £8,000,000,000.

Monop of Cr 21-22.

Ownership of War Loan

It is probably true to say that 90 per cent of the holdings of Government War Securities were under the ownership or complete lien of the banks and financial houses by about the middle of 1922. From this time on, a process of reselling these stocks to the public at enhanced prices began, fostered by the stagnation of trade, which forced any available money in the country into fixed interest-bearing securities. Owing to the comparatively small amount of money available for this purpose, and the fact that a large amount of Government Stock was acquired by the direct creation of bank credits on bank account, it is probable that even yet 75 per cent of the total issue of Government Securities is in the hands of the banks, or is held by them under a lien; sufficient only being in individual hands to ensure the protection of the loan as a whole.

Soc Cr 142.

Let us now imagine a single adjustable tax applied to all production, of such magnitude as to bring prices from those fixed by a given method[1] to the suitable international exchange level. In existing circumstances, without affecting present prices, such a tax would pay the interest on the War Loan many times over.

Ec Dem 138.

National Debt a Distributing Agent

However the matter be considered, the National Debt as it stands is simply a statement that an indefinite amount of goods and services (indefinite because of the variable purchasing power of money) is to

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[1] For the method referred to, see p. 24 (*ante*).

be rendered in the future to the holders of the loan—*i.e.,* it is clearly a distributing agent.

Now, instead of the levy on capital, which is widely discussed, let it be recognized that credit is a communal, not a bankers', possession; let the loan be redistributed by the same methods suggested in respect of a capital levy, so that no holding of over £1,000 is permitted; to the end that, say, 8,000,000 heads of families are credited with £50 per annum of additional purchasing power.

Ec Dem 124-125.

FINANCE AND POLICY

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.

Warn Dem 52.

The Defeat of Democracy

Democracy is frequently and falsely defined as the rule of the majority—a definition quite sufficient to account for its unpopularity with many persons whose opinion is not unworthy of consideration. . . . Real democracy is something different, and is the expression of the policy of the majority, and, so far as that policy is concerned with economics, is the freedom of an increasing majority of individuals to make use of the facilities provided for them, in the first place, by a number of persons who will always be, as they have always been, in the minority.

Cr P and Dem 7-8.

On matters of policy, however, in sharp contradistinction to the methods by which that policy should be carried out, the majority may be trusted to he right, and the minority is very frequently wrong. To submit questions of fiscal procedure, of foreign affairs, and other cognate matters to the judgment of an electorate is merely to submit matters which are essentially technical to a community which is essentially non-technical. On the contrary, broad and even philosophical issues, such as, for instance, whether the aim of the industrial system is to produce employment, or whether it is to produce and distribute goods, are matters of policy, and it is very noticeable that such matters are kept as far as possible from the purview and decision of the general public. In fact, the aim of political wire-pullers is to submit to the decision of the electorate, *only alternative methods of embodying the same policy*.

Soc Cr 125-6.

Assuming for the moment . . . that the will of the people, as expressed by their votes, must prevail, there is no doubt that the defeat of the power of political caucuses to draw up the agenda of an election is the immediate objective. The exact method by which to attain this end is immaterial so long as it is attained. The invalidation of an election, if less than 50 per cent of the electorate voted on the issues submitted to them, would be as good a method as any other. The recognition of the danger to the Hidden Government which is contained in some such procedure is no doubt responsible for the proposal (and in certain areas, the Law) constituting abstention from voting a penal offence.

Soc Cr 174.

Governments under Financial Influence

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, 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.

Warn Dem 63.

To understand the trend of the present system from the standpoint of policy . . . we must notice that it results in keeping the majority of persons employed approximately eight hours per day either in producing, distributing, or safe-guarding, what is admittedly a deficient supply of ultimate commodities, and this in spite of the advancement of science and its application to Production. We see also that whatever the amount of these ultimate commodities produced, and however much cash the community earns, the aggregate prices of mere consumption goods can be made to equal the aggregate earnings in respect of the production of both capital goods and consumption goods, either by keeping the articles in short supply or making monopoly arrangements to set prices at a 'suitable' level; but, in any case, prices of capital goods plus prices of consumption goods are in excess of available cash demands because of the credit factor in the prices.

Cr P and Dem 41-42.

Hence we see that the last word on *policy* is with finance, not with administration, and is concerned with the control of credit by the banks; and to democratize the *policy* of production we have to democratize the control of credit.

Cr P and Dem 7.

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.

Warn Dem 50.

The essence 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 organization on the other hand.

Warn Dem 51.

The Theory of Scarcity

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 confrères, 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 Charter Act 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.

Warn Dem 55.

Work is the 'moral' Objective of Financial Government

Until recently, the statement that a large body of the public lived on the verge of starvation, *because* it was unemployed, and that, therefore, the problem of the modern world was the abolition of unemployment, received almost universal assent. It is fair to say that opinion is no longer so unanimous on this matter; and in consequence, from the position of being stated as an axiom, it may be observed that it is receding into the position of a proposition to be proved.

Soc Cr 109.

Why, then, is there so great a misdirection of attention in a matter of such primary importance? There is, I think, only one general and comprehensive answer which can be given to this question: and that is, that whether consciously or not, there is a widespread feeling on the part of executives of all descriptions that the only method by which large masses of human beings can be kept in agreement with dogmatic moral and social ideals, is by arranging that they shall be kept so hard at work that they have not the leisure or even the desire to think for themselves.

Soc Cr 115.

It is of practical importance, as bearing on the difficulties of obtaining an alteration in the financial system itself, to note that the spokesmen of orthodox finance seem to assume the position of arbiters and protagonists of morals, both individual and international.

Mac Rept.

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'.

Warn Dem 116.

Socialism and Ultra-Capitalism agreed

To students of the psychology alike of industrial and of world movements (which is, in essence, identical) it requires an effort to avoid cynicism at the similarity in the real aims of orthodox Socialism and ultra-Capitalism. The idolater of the State says: 'I will make it impossible for you to live except you conform to my standard of conduct.' Lord Leverhulme, amongst others, says very little but, being more capable, obtains world control of essential products, and lays down a policy both for his employees and those who must have his goods. Bismarck understood the situation perfectly when, in speaking of the German Socialist Party, he observed: 'We march separately, but we conquer together.'

C and D of Prod 113.

It has already been suggested that the chief aim of persons who may be regarded as executives of the Classical Policy is to avoid as far as possible any discussion whatever on the policy itself and to direct public attention to a profitless wrangle in regard to methods. In Great Britain, Conservatives advocate the raising of prices by means of tariffs; Liberals advocate the lowering of purchasing power by means of increased Death Duties and Insurance Schemes; Labour, the strangulation of individual initiative by means of nationalization or a Capital Levy. The choice offered to the free and enlightened elector is between being hanged, boiled in oil, or being shot. In the United States every effort is made to rivet the attention of the public on tariffs or Prohibition, while prices rise with increasing velocity, and the mortgagee grips the land with ever greater tenacity.

S*oc Cr* 170.

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 statesman 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.’

Warn Dem 154-5.

Fundamental Principles of a True Financial Policy

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

(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 organization:

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 a 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 organization is most efficient when it most easily and rapidly supplies economic wants without encroaching on other functional activities.

Warn Dem 37.38.

THE POWER OF FINANCE

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 is something much more concrete than that. Our thoughts of governments usually range over such subjects as Houses of Parliaments, 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.

Warn Dem 93.

The concentration of control over business firms, which is the accompaniment of the increasing dependence of the business world upon banking accommodation, is paralleled by the rapid elimination of a class of any considerable dimensions which can maintain its customary standard of life without commercial employment. Both commercial employer and commercial employed are therefore coming under an invisible control which is not subject to any criticism of its actions in respect to the giving or withholding of this 'employment' without which civilized existence is becoming impossible. The obsolete system of chattel slavery had the vital defect that the slave could not fail to be conscious of his slavery, and consequently required guarding. But the more insidious subjection with which we are threatened, promises a condition of affairs in which servitude will only be granted as a privilege, and starvation following on degradation will be the alternative.

Soc Cr 153-4.

Money-Control of Intelligence and Culture

Finance, *i.e.* money, is the starting-point of every action which requires either the co-operation of the community or the use of its assets. If it be realized that control of its mechanism gives, to a major extent, control of both personal and organized activity, it is easy to see that education, publicity, and organized Intelligence (in the sense in which the word 'Intelligence' is used in military circles), can be controlled, first to minimize the likelihood of criticism arising, and should it arise, depriving it of all the normal facilities for effective action. Finance can, and does control policy, and as has been well said by an American writer, Charles Ferguson, 'control of credit and control of the news are concentric'.

Monop of Cr 2-3.

I can imagine someone saying: 'This is another Hidden Hand theory.' . . . 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 1 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.

Warn Dem 54.

The results of this state of affairs can be seen somewhat sharply defined in the case of professional economists, necessarily in the direct or indirect employ of banks or insurance companies.

It would, of course, be improper and probably unfair to attribute anything but intellectual honesty to these gentlemen. Moreover, such an assumption would deny due appreciation to the ability of their patrons. Their failure to make any noticeable contribution to the solution of the problems within their special field can, I think, be explained by the incompatibility of any effective solution with the credit monopoly which is at once their employer and critic.

Monop of Cr 3.

Growing Discontent with Financial Government

The perfecting of the financial system of control . . . has been contemporaneous with a rising wave of discontent and disillusionment, and it is obvious enough that competent financial policy as operated by those in present control of the financial system aims not so much at removing this discontent, as at removing all mechanism by which it could be made effective. That is the objective of the disarmament propaganda in its various forms. So that we seem to be in possession of a certain amount of preliminary evidence which would weigh against this centralized control of finance. A further examination, I am afraid, only strengthens this view.

Monop of Cr 73.

Finance on its Defence

So rapid was the progress made by these ideas[1] 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.

Warn Dem 138.

As a result of the consideration of the care with which the financial and legal organization of the world has been perfected and has entrenched itself it seems difficult to avoid the conclusion that when the milder methods, and the ability to manipulate public opinion, no longer function, the mask will be thrown aside and stark compulsion will be ruthlessly invoked. That is already happening in portions of the Middle West of America, where strikes are indistinguishable from minor military engagements; and much the same phenomena are observable in Germany. The 'castor oil' methods of the Italian Fascisti are of course similar. The British Government representative on the Board of our only aeroplane company is, by a curious coincidence, the President of the Bankers' Institute.

All this is important in considering the emphasis to be laid upon such questions as whether the attainment of reform by political, that is to say Parliamentary methods, or whether some variant of the 'Direct Action' principle is the only possible path to effective change.

Soc Cr 172-3.

Responsibility of the Financial Faculty

Now if we have an undertaking of which the directorate cannot be removed, however at variance with the desires of the proprietors may be its conduct, we can see that the outcome must be one of two things. Either the directors will, by superior adjustments of policy, produce such results as will in time remove cause for complaint, or

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[1] Social Credit criticism and proposals.

alternatively, their policy being bad, the undertaking will go to shipwreck. Under these circumstances there is probably only one useful course of action, and that is, so far as possible, to make it clear to everyone concerned that in existing circumstances the directors cannot be removed, and that they alone are responsible for the outcome of their policy.

Monop of Cr 83.

In order to fix responsibility for this policy it is, perhaps, only necessary to quote a recent speech by Mr. Montagu Norman, Governor of the Bank of England, as reported in *The Times* of March 21st, 1930. A previous speaker, Mr. Hargrave, had said: 'They held the hegemony, so far as this country was concerned, in finance, and he thought he might say, considering the way in which they were regarded in foreign countries, that they also held the hegemony of the world.' Mr. Montagu Norman commented: 'He was glad to note what Mr. Hargrave said about the hegemony in one place and another. He believed it was largely true, so far as overseas were concerned, and if it was true, it was largely the result of work which the Bank had devoted, first of all to the stabilization of Europe, and secondly to the relationships between the central banks, which were originally advocated at Genoa.'

Mac Rept.

Finance and World Power

There have been many critics of this policy, not alone amongst specialists on the question of monetary science, but in the ranks of both industry and of banking itself. Parliamentary discussion, industrial protests, and technical criticism, however, have been alike without any apparent influence upon the policy pursued, which in the main has not even been defended. The effect of such criticism, if any, must be sought in the acceleration of the measures taken to increase the strength of bank organization against this and similar attacks, a major feature being the formation of twenty-four central banks in the past decade, culminating in the launching of the super-central bank known as the Bank for International Settlements. . . .

Bank for International Settlements

This institution opened its doors in May 1930, ostensibly to deal with the transfer of the large sums of money involved in the International Debts and reparations, which are the legacy of the Peace Treaties. As frequently happens in connection with financial affairs, the ostensible objective of the bank, however, can be recognized as a cover for much larger activities.

Monop of Cr 60.

The constitution of the Board of Directors . . . consists, first, of the governors of the central banks of Belgium, France, Germany, Great

Britain, and Italy, with a nominee of the Bank of Japan, and a representative of United States banking. Added to this are seven additional directors nominated individually by the first seven, having the same nationalities as their nominators, and 'representative of finance, industry, or commerce'. The central banks of France and Germany have the further power, during the period of the reparation payments, to appoint one more member each, which they have done. There being a maximum of only nine other seats on the Board, it is clear that the original central banks constituting the appointers of the first directors have permanent control over the policies of the bank. This control is further emphasized by a provision that voting rights at general meetings are in proportion to the number of shares originally allotted to those institutions having the power of nomination to the Board.

Monop of Cr 61-62.

Effects of Centralized World Finance

Obviously the intention . . . was that the B.I.S. should be essentially the Central Bank of central banks, that it should hold reserves of gold as a basis of the cash reserves of the central banks, and that in consequence it should act as the supreme regulator of the world's money supplies. In other words, the relation, for instance, of the Bank of England to the B.I.S. would be similar to that of the Joint Stock Banks to the Bank of England, and thus it may be said that the B.I.S. places the final stone upon the pyramid of financial organization.

Monop of Cr 63.

While no doubt the working banker would be tempted to deny it, it seems true beyond all reasonable doubt, to say that the system is directed to the constitution of a series of bottle-necks in the organization of the economic system, these bottle-necks operating through the financial system to place both production and distribution under the control of financial interests. In the modern world, the considerable sums of purchasing power which are required to finance industrial undertakings cannot be obtained without access to the mechanism of public credit which has come under the control of this system. The Joint Stock Banks therefore may be said to be in control at this point. Their own adherence to the system in Great Britain is insured by their dependency upon the Bank of England for currency, and in other countries by somewhat similar arrangements in regard to the central banks. These central banks in turn are, by the costing system, forced to make provision for considerable transactions in the various national currencies, and these transactions as between nations are destined to come under the control of the Bank for International Settlements, which obviously places the power of veto on the interchange of industrial commodities, as between nations, with this latter institution.

Monop of Cr 64.

The possibility of manipulating the economic prosperity as between one country and another through an international financial organization, such as is growing up independent of effective national control, and having ends to serve which are not those of the populations affected, is perhaps one of the most serious aspects of the annexation of financial credit.

Mac Rept.

The Menace of Irresponsible Power

Only the exercise of a childlike faith, which the present generation seems unlikely to supply, would secure agreement with the proposition that a system which has produced undesirable results in cumulative measure as its power increases, would produce better results if its power became absolute. While grave criticism of the personnel of the banking system and its prostitution to politics of a peculiarly vicious character is becoming daily more common and seems in many cases to be justified, it is evident that the world is becoming daily less willing to trust any personnel with a system at once so powerful, irresponsible, and convulsive in its operation.

Monop of Cr 75.

Beyond question, the economic system which is dominated by the financial structure of banks and insurance companies is an unofficial and temporarily all-powerful government, neither elected, nor subject to effective criticism, the embodiment of the concept that externally imposed restraint is the first condition of a stable society.

Monop of Cr 8.

It seems difficult to doubt that the efforts of those in control of financial policy are primarily, if not entirely, concerned with making the world safe for bankers, rather than making the world safe. By one of those curious ironies which seem to be present in great crises, it happens, as one might say by a side-wind, that the world cannot be made safe without removing the banker, painlessly or otherwise, from the commanding position which he now occupies. The alternative is in fact clear, and nothing effective can be done to protect civilization from its major risks which is not an attack upon the power of finance.

Monop of Cr 83-84.

The characteristic of orthodox Finance is the centralization or monopoly of Credit. I could, without much difficulty, prove to you that such a policy synthesizes 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.

Warn Dem 73-74.

PART III

THE INDUSTRIAL SYSTEM

The Increase of Productive Power

It is evident that, before any solution to all these problems of world unrest can be put forward with any certainty of success, it is necessary to come to some understanding on matters of fact.

The primary fact on which to be clear is that we can produce, at this moment, goods and services at a rate very considerably greater than the possible rate of consumption of the world, and this production and delivery of goods and services can, under favourable circumstances, be achieved by the employment of not more than 25 per cent of the available labour, working, let us say, seven hours a day. It is also a fact that the introduction of a horse-power-hour of energy into the productive process could, under favourable circumstances, displace at least ten man-hours. It is a fact that the amount of mechanical energy available for productive purposes is only a small fraction of what it could be. It seems, therefore, an unassailable deduction from these facts that, for a given programme of production, the amount of man-hours required could be rapidly decreased, or conversely, the programme could be increased with the same man-hours of work, or any desired combination of these two could be arranged.

Soc Cr 18.

The distinguishing characteristic of the nineteenth and twentieth century is the rapid advance of process, together with the rendering available of large amounts of energy which may be considered as derived from the sun, through the various agencies of coal, oil, steam, etc. It appears to be reasonably true to say that for a given process the rate of production is proportionate to the rate of use of energy, and to a large extent it is immaterial whether this energy is muscular or is applied by machines. The physical effect of these factors has therefore been to increase the rate of production of a given article per human unit of labour. For instance, the rate of production of pig-iron is 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. In 1919 the index of factory output (based upon 1914 as 100) was 147, and the index of factory employment was 129. By 1927 output had risen to 170, but 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. In automobiles, output per man has increased to 310 per cent, an increase of 210 per cent.

Mac Rept.

On this basis it is safe to say that one unit of human labour can on the average produce at least forty times as much as was the case up to the beginning of the nineteenth century.

Monop of Cr 26.

Employment Decreases as Production Increases

For a given programme, increased production per man-hour means decreased employment. It is also a fact that never during the past few decades have we been free from an unemployment problem, and it is also a fact that never during the past fifty years has any industrial country been able to buy its own production with the wages, salaries, and dividends available for that purpose, and in consequence, all industrial countries have been forced to find export markets for their goods.

Soc Cr 18-19.

If you will look at these generalizations, 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 recognized 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 be called a condition of leisure.

Warn Dem 82.

The Objective of an Industrial System

In attacking an engineering problem the first point we settle, with as much exactness as possible, is our objective. No engineer observer of the discussions which take place in political and lay circles on the industrial problems of the present day can fail to be struck with the fact that the problem itself is rarely stated with any clearness. For instance, the paramount difficulty of the industrial system is commonly expressed as that of unemployment. Therefore the suggestion involved is that the industrial system exists to provide employment, and fails. Those who are engaged in the actual conduct of industry, however, are specifically concerned to obtain a given output with a minimum of employment, and in fact, a decreasing amount of employment. Consequently, those who are talking about industry and those who are conducting industry have in their minds objectives which are diametrically opposed and incompatible.

Monop of Cr 116-7.

If employment is accepted as the objective of the industrial system, therefore, and output to be a dependent variable of this objective, either (a) process and mechanical energy employed must be kept rigidly constant, or (b) output must be completely unfettered by any difficulties of sale.

Monop of Cr 117.

Overproduction Solved by Sabotage

The banking organization at present existing, even if we are prepared to concede to it an altruism not particularly noticeable, is by its expressed philosophy seriously handicapped in dealing with this situation. This philosophy exalts industrial work as an end in itself, and deplores as one of the major evils of the time, the leisure which it labels 'the unemployment problem'. While it possesses the power to inaugurate and modernize the plant of industry, and in the process to locate it geographically in accordance with the best interests of the community, the carrying out of such a policy must of necessity be entrusted to technically capable individuals. Unfortunately for the banking system, these individuals cannot be restrained from making each successive plant more efficient than the last, with the result that a given output requires less and less labour, and the unemployment problem, as labelled, is thereby increasingly complicated. Only by a frenzied acceleration of capital sabotage, which is now being openly advocated in many quarters, can the population (which would, so far as the physical aspect of the situation is concerned, be free to enjoy the product of the plants already existing) be kept at work on the production of capital goods.

Monop of Cr 77.

The enormous increase of sabotage of all descriptions which is the outstanding feature of contemporary industry is due to the blind effort to equate purchasing power to production without altering the principles of price-fixing.

Cr P and Dem 18.

The True Objectives of Industry

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*.

Warn Dem 20.

The *primary* object of the whole industrial system should be the delivery, to individuals associated together as the public, or society, of the material goods and services they individually require. This demand of individuals, be it emphasized, is the absolute origin of all activity. Since men co-operate to satisfy this demand, which is complex in its nature, it is necessary also to combine the demand, and this combined demand of society is the policy, so far as it is economic, of society as a whole. The first part of the problem, then, consists in finding a mechanism which will impose this policy on the co-operating producers with the maximum effectiveness, which always means with the minimum of friction.

C and D of Prod 41.

PURCHASING POWER

It may be contended and, in fact, it frequently is stated, that even with the unemployment statistics at their minimum point and the Nation at its maximum activity in Industry, there is still not enough product to go round. Recently, for instance, Professor Bowley has estimated that the total surplus income of the United Kingdom in excess of £160 per annum is only £250,000,000, which, if distributed to 10,000,000 heads of families, would mean £25 per annum per family, assuming that this distribution did not reduce the production of wealth.

The figures themselves have been criticized; but, in any case, the whole argument is completely fallacious, because it takes no account whatever of loan credit, which is by far the most important factor in the distribution of production, as we have already seen. What it does show is that the purchasing power of effort is quite insignificant in comparison with its productive power.

Ec Dem 73-74.

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.

Warn Dem 126.

Purchasing Power Insufficient, even if Redistributed

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 then the other must have less. . . . 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 to-day 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.

Warn Dem 125-6.

What the population of the world wants, and is determined to get, is a sufficiency of goods and services; there is no lack of these goods and services, either actual or potential, but they cannot be obtained except through the agency of money, of which there is a lack. This lack of money is not natural, in the sense of being unavoidable, but is wholly artificial, and is the result of a deliberate policy in the operation of the money system, although that policy may not perhaps be wholly conscious.

B of E Syst 9.

It seems beyond dispute that the reason that buying up to the power of the ability of the industrial system to produce does not take place is because there is a lack of money required to pay the prices demanded. In a subsequent section it is proposed to prove that under the existing financial system the general public can at no time acquire by purchase the whole of production, but while this is so, and the proportion of a given volume of production which the public can buy is probably fixed by the system, *the total volume of production* is almost certainly governed by financial policy.

Mac Rept.

Categorically, there are at least the following five causes of a deficiency of purchasing power as compared with collective prices of goods for sale:

1. Money profits collected from the public (interest is profit on an intangible).
2. Savings, *i.e.*, mere abstention from buying.
3. Investment of savings in new works, which create a new cost without fresh purchasing power.
4. Difference of circuit velocity between cost liquidation and price creation which results in charges being carried over into prices from a previous cost-accountancy cycle. Practically all plant charges are of this nature, and all payments for material brought in from a previous

wage cycle are of the same nature.[1]
5. Deflation, *i.e*. sale of securities by banks and recall of loans.

There are other causes of, at the moment, less importance.

N & 0 Econ 19.

The point we have to make is not merely that financial purchasing power is unsatisfactorily distributed, it is that, *in its visible form*, it is collectively insufficient.

Soc Cr 82.

Profits

It is impossible for a closed community to operate continuously on the profit system, if the amount of money inside this community is not increased, *even though the amount of goods and services available are not increased*. . . . If a number of persons continue to sell articles at a greater price than that paid for them, they must eventually come into possession of all the money in the community, and the only flaw in such a state of affairs would be that it would be self destructive, since in a comparatively short period of time a small section of the community would own all the money, and therefore the remainder of the community would be unable to pay, and production and sale would stop. This process probably contributed largely to the rapid accumulation of wealth in the hands of the entrepreneur at the beginning of the nineteenth century, and the limited extent to which the benefits of industrial progress were passed on to the general population, but the profit-making system is certainly not to any great extent responsible for the present situation, since profits have ceased to form an outstanding feature of business. It is an extraordinary feature of the controversy that they are attacked as immoral as well as undesirable. It has never been clear to me why any man in any position of life should be expected to perform any action whatever which was not in some sense of the word profitable to him, and there is more than a suspicion that the attack upon profits can ultimately be traced to a fear of the economic security offered by this type of remuneration, as compared with that of the wage and salary.

Monop of Cr 23-25.

The effect of the concrete sum distributed as profit is overrated in the attacks made on the Capitalistic system, and is of small and diminishing importance as compared with the delusive accounting system which accompanies it, and which acts to reduce consistently the purchasing power of effort. It is, nevertheless, of prime importance as furnishing the immediate ‘inducement to produce’, which is a false inducement in that it claims as ‘wealth’ what may just as probably be waste.

Ec Dem 68-9.

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[1] See ‘The A + B Theorem’, p. 48.

While the effect of . . . profit . . . is far and increasingly less important than the overhead charges added to the value of the product in computing its factory cost, it is the dominant factor in the political aspect of the situation, because the equation of production is stated by the capitalist in a form which requires it to be solved in terms of selling price, while the profit is always a plus quantity.

C and D of Prod 58-59.

Concealed Profits

If the interaction between production for profit and the creation of credit by the finance and banking houses is understood, it will be seen that the root of the evil accruing from the system is in the constant filching of purchasing power from the individual in favour of the financier, rather than in the mere profit itself.

Ec Dem 69.

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 aggrandize 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 centralized and restricted credit and a free society unfettered by financial restrictions.

Warn Dem 42-43.

Apart from any more subtle explanation, even great banks hesitate to distribute their true profits for fear of attracting too much attention.

Soc Cr 151.

Purchasing Power and Prices

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.

Warn Dem 31.

The 'Orthodox' Theory of Purchasing Power

On the assumption that the delivery of goods and services is the objective of the industrial system, it is obvious that the rate of flow of purchasing power should be equal to the rate of generation of prices. The existing financial arrangements make a crude effort to approximate this condition by issuing purchasing power to manufacturing organizations in the form of loans, which in turn the manufacturing organizations distribute in wages and salaries against future production.

In other words, the existing financial system increasingly mortgages the future in order to sell the goods existing at present, the most recent and most obvious form of this practice being the instalment system of purchase.

Monop of Cr 125-6.

The orthodox theory assumes that the money, equivalent to the price of every article which is produced, is in the pocket, or the bank pigeon-hole of somebody in the world. *In other words it assumes that the collective sum of the wages, salaries and dividends distributed in respect of the articles for sale at any given moment, which represents collective price, is available as purchasing power at one and the same moment*. Certain persons have more money in their pockets or bank pigeon-holes than they wish to spend on consumable goods. They do not spend it, they save it, as the phrase goes. By this abstinence from spending, they form a fund which enables capital goods, *i.e.* tools, plant, factories, to be paid for, and therefore produced, and because of the process by which these are paid for the capital goods thus produced become the property of those persons who have thus saved.

Soc Cr 83-84.

And its Fallacy

Now the first point to be grasped in regard to this argument as a whole is that, even supposing at any given moment it were true, one week afterwards it could no longer be true. If on a given day, there was extant in the world sufficient money to buy all the goods in the world at the prices it had cost to produce those goods, and any portion of that money were applied to form the payment for the production of new goods, then that money so applied forms the costs of the new goods, and immediately there is a disparity between the total costs, which are the minimum total prices of goods, and the amount of money in the world which would, ex-hypothesi, be exactly the same as before. This would be true even if no one 'saved' any further quantity of money. The persons who had saved the money would not have saved the goods which the original money represented, they would merely have transferred their claims from the original goods in existence to new goods, and could only ‘get their money back’ by the sale of those goods; nor would there be any mechanism in existence by which the old goods could be bought. That surely must be self-evident.

But the process does not stop there. From the investor’s or ‘saver’s’ point of view, his only object in putting his money into capital goods is to get an increased amount of money back, and . . . he can only get this money back from the public in the form of prices. The condition then is, that there are more goods in the world at each successive interval of time, because of the financial saving, and its application to fresh production, while the interest, depreciation, and obsolescence, on this financial saving has to be carried forward into the prices of production during a succeeding period.

Soc Cr 84-85.

That the national income equals the sum of the price values of the national production . . . *would be true if all wages, salaries and dividends charged to production were used, at the instant they were earned, to buy the production in respect of which they are earned*. But they are not so used, and on this gap between production and delivery, which the complexity of modern co-operative production is widening, a mass of credit purchasing power is erected which never appears as income at all. If A ordered a house off B; and B, having built it, lived in it for ten years and then insisted on charging his rent to A in a lump sum addition to the price, A would probably complain; but when B puts his overhead charges, the rent of his control of production, into the price of bricks for A’s garage, A seems to regard it as an act of God, or alternatively, of the king’s enemies, Possibly he is right in both cases, but that does not alter the fact that A is being asked to pay, in prices, for something—*viz.* a period of use-value, past, and therefore destroyed and non-existent—of which the effective purchasing power never was distributed either as wages, salaries, or dividends—*i.e.* income—therefore income will not buy it. What may remain is the credit-value of this period of use, its assistance to future production, which may form a solid basis for a distribution of purchasing power possibly much in excess of the use-value charged in prices; but A gets none of this.

We admit the elusiveness of the argument; it is one of those conceptions which, like the differential coefficient in mathematics, to which it has a strong family resemblance, comes suddenly rather than by intellectual explanation.

C and D of Prod 114-16.

Tendency of Present Flow of Purchasing Power to Decrease

All large-scale business is settled on a credit basis. In the case of commodities in general retail demand, the price tends to rise above the cost limit, because the sums distributed in advance of the completion of large works become effective in the retail market, while the large works, when completed, are paid for by an expansion of credit. This process involves a continuous inflation of currency, a rise in prices, and a consequent dilution in purchasing power.

The reason that the decrease in the consumer's purchasing power has not been so great as would be suggested by these considerations is, of course, largely due to intrinsic cheapening of processes which would, if not defeated by this dilution of the consumer's purchasing power, have brought down prices faster than they have risen.

Ec Dem 62.

The book value of the world's stocks is always greater than the apparent financial ability to liquidate them, because these book values already include mobilized credits. The creation of subsidiary financial media, in the form of further bank credits, becomes necessary, and results in the piling up of a system of figures, which the accountant calls capital, but which are in fact merely a function of prices. The effect of this is, of course, to decrease progressively the purchasing power of money, or in other words to concentrate the lien on the services of others, which money gives, in the hands of those whose rate of increase is most rapid. Intrinsic improvements in manufacturing methods operate to delay this concentration in respect of industry, but the process is logically inevitable, and, as we see, is proceeding with ever-increasing rapidity; and we may fairly conclude that the profit-making system as a whole, and as now operated, is inherently centralizing in character.

Ec Dem 29-30.

A New Source of Purchasing Power Essential

To put the matter in a form of words which will be useful in our further consideration of the subject, *the consumer cannot possibly obtain the advantage of improved process in the form of correspondingly lower prices, nor can he expect stable prices under stationary processes of production, nor can he obtain any control over the programme of production, unless he is provided with a supply of purchasing power which is not included in the price of the goods produced.*

Soc Cr 99.

From this disparity between purchasing power and goods available arises almost every material economic ill from which the world suffers to-day, 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.

Warn Dem 103.

The only sane limit to the issue of credit for use as purchasing power is the limit imposed by ability to deliver the goods for which it forms an effective demand, providing that the community agrees to their manufacture.

Cr P and Dem 102.

THE A + B THEOREM

Looked at from the above standpoint it is fairly clear that the kernel of the problem is factory cost, since it is quite possible to conceive of a limited company in which the shares were all held by the employees, either equally or in varying proportions, according to their grade, and the selling costs were internal—that is to say, all advertising was done by the firm itself, and the cost of its salesmen, *etc.*, was either negligible, or confined to their salaries. We should then have the complete profit-sharing enterprise in its ultimate aspect, and the argument against Capitalism in its usual form would not arise.

Ec Dem 57.

Rates of Flow of Prices and Purchasing Power

A factory or other productive organization 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 organizations (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 + B. The product of any factory may be considered as something which the public ought to be able to buy, although in many cases it is an intermediate product of no use to individuals but only to a subsequent manufacture; but since A will not purchase A + B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the descriptions grouped under A.* It will be necessary at a later stage to show that this additional purchasing power is provided by loan credit (bank overdrafts) or export credit.

Cr P and Dem 21-23.

Some Objections to the Theorem Answered

Now the first objection which is commonly raised to this statement, is that the payments in wages which are made to the public for intermediate products which the public does not want to buy and could not use, when added together, make up the necessary sum to balance the B payments, so that the population can buy all the consumable products. . . . As the economic system may be said to depend upon this matter, it is essential that a clear understanding of it should be obtained.[1]

Monop of Cr 32-33.

For instance, a modern stamping plant may require to add 600 per cent to its labour charges to cover its machine charges, this sum not being in any true sense profit. In such a case, for every £1 expended in a given period in wages, £6, making £7 in all, would be carried forward into prices, and although this is an extreme case, the constant, and in one sense desirable, tendency, is for direct charges to decrease and for indirect charges to increase as a result of the replacement of human labour by machinery. There is no difference between a plant charge of this nature and a similar sum repaid as a 'B' payment. The essential point is that when a given sum of money leaves the consumer on its journey back to the point of origin in the bank it is on its way to extinction. If that extinction takes place before the extinction of the price value, created during its journey *from* the bank, then each such operation produces a corresponding disequilibrium between money and prices. For these causes and others of a similar character, it seems to me quite beyond argument that the production of such a quantity of intermediate products including plant, machinery, buildings, and so forth, as is physically necessary to maintain a given quantity of consumable products, will not provide a distribution of purchasing power sufficient to buy these consumable products. This would be true even if prices and costs were identical. But since prices can and do rise much above costs, additional purchasing power from intermediate production is rapidly absorbed.

To say that at some time or other the money has been distributed is in the nature of a general assertion which does not bear upon the specific fact. The mill will never grind with the water that has passed, and unless it can be shown, which it certainly cannot be shown, that all these sums distributed in respect of the production of intermediate products are actually saved up, not in the form of securities, but in the form of actual purchasing power, we are obliged to assume what I believe to be true, that the rate of flow of purchasing power derived from the normal and theoretical operation of the existing price system

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[1] See also 'The Orthodox Theory of Purchasing Power and its Fallacy,' pp. 45-46. (*ante*).

is always less than the generation of prices within the same period of time.

Monop of Cr 36-7.

Sales between Consumers

There is another method of regarding this matter which is helpful to the grasp of an admittedly difficult subject. Suppose that the wages, salaries, and dividends distributed *were* exactly sufficient to buy the new production on sale at any moment and did so buy it, *i.e.* let us suppose that the financial system worked as it is supposed to work. Obviously numbers of things would be bought, such as houses, furniture, *etc*., which would have a considerable life. But *ex hypothesi* the sale *between consumers* (as distinguished from sales from producer to consumer) of these would be impossible—they would have no money, since at the moment of transfer of the goods from the producing to the consuming system their money value would have disappeared on its journey back to the bank.

Sales between consumers are an important though frequently overlooked factor in distribution, and require that the money value of 'second-hand' goods shall be in existence until the goods have physically disappeared.

Monop of Cr 37-8.

Velocity of Circulation

In Great Britain, 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 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,[1] 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 £1 from the 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

[1] *Facts and Fallacies of Social Credit* (Brown, Prior & Co. Melbourne).

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.

N & 0 Econ 18-19.

It may, with reason, be asked how if this be so, is it that in fact consumable products are sold at all? The answer to this is again complex, but the main forms in which assistance is given to the defective purchasing power of the population (although that assistance is much less than is required to enable the production system fully to be drawn upon) are the redistribution of money through the social services such as the so-called dole, the use of money received from the sale of exports, from foreign investments and from invisible exports such as shipping, redistributed through the medium of taxation, the distribution of bank loans (advanced on mortgage, debentures, *etc*.) in wages for excessive capital production, and the selling of goods below cost through the agency of bankruptcies, forced sales and actual destruction. These latter three are a direct discouragement to production, and in fact represent a subsidy in aid of prices from private sources, a conception which it is desirable to bear in mind in considering remedies, in view of the fact that, so far from this subsidy raising prices, it only comes into operation by the lowering of prices.

It will readily be seen how this situation in which not production, but money, is chronically insufficient, must transfer control to the institutions which have acquired the monopoly of money-making. In order that the industrial system may not grind to a standstill, an increasing issue of money, chiefly for capital production, is necessary to bridge the gap between purchasing power and prices—a gap which is the only possible explanation of the anomaly between a half-idle production system and a half-starving population. But as this fresh money is claimed by the banking system, and has to be repaid, the situation is cumulatively worsened.

Monop of Cr 36-40.

The above proposition is perhaps most simply grasped by recognizing that the B payments may be considered in the light of the repayment of a bank loan by all the concerns to whom they are made, with the result involved in the relationship previously discussed between bank deposits and bank loans. When real capital (*i.e*. tools, *etc*.) is financed from savings, that condition is complicated by (b). . . .

The Effect of Saving

(b) The persistence of the idea that monetary saving has a physical counterpart in physical accumulation will no doubt exercise the attention of historians of the present period. Since money is normally only distributable through the agency of wages, salaries, and dividends, it being assumed that the interest on Government loans is provided by taxation, the whole of these wages, salaries, and dividends must have appeared in the cost, and consequently in the price of articles produced. It does not appear to need any elaborate demonstration to see that any saving of these wages, salaries, and dividends means that a proportion of the goods in the prices of which they would appear as costs, must remain unsold within the credit area in which they are produced and are therefore, in the economic sense, wasted. The investment of the funds so saved means the reappearance of the same sum of money in a fresh set of prices, so that on each occasion that a given sum of money is reinvested, a fresh set of price values is created without the creation of fresh purchasing power.

Mac Rept.

Effects of Credit-Financing

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.

N & 0 Econ 15- I 7.

THE BREAKDOWN OF TRADE

Inflation and Deflation

Shortly, the characteristics of inflation are: Enormous increase in production, fantastic rises in prices, speculation, submergence of the professional and so-called cultured classes, centralization of economic power, and industrial serfdom. Saving becomes impossible. There is little unemployment, at any rate for a time, but if you *are* unemployed, you starve immediately. Your immense output cannot be internally absorbed . . . the urgent necessity of markets means certain war, sooner or later, and the greater the inflation the sooner the war must come. In the meantime, however, you become more capable of the immense output which war demands; and your centralized industrialists, who do not expect to line the trenches, regard the prospect with complacency.

B of Em Syst 3.

The characteristics of deflation are familiar. Somewhat lower prices, lower standard of living, industrial stagnation and unemployment, bankruptcies, grinding taxation and class cleavage, are some of them. They are all related; and it is probably not by accident that such emphasis is placed on one of them alone, as though it stood by itself— I mean unemployment.

B of Em Syst 3.

Effects upon Purchasing Power

On the onslaught of peace, the financial authorities realized that it was imperative, from their point of view, to regain control of the situation. After the lapse of a short period of feverish production and industrial prosperity, accompanied by rapidly rising prices, the policy of deflation was simultaneously inaugurated in the United States and Great Britain about April 1920. The effects were immediate. In the United States the numbers of unemployed rose from negligible figures to six millions within three months, and in Great Britain effects proportionate to the size of the population were similarly experienced. In the United States this policy was reversed after a period of about six months, to be followed by eight years of the greatest material prosperity ever experienced by any country in history, during which the deposits in the Member Banks of the Federal Reserve System rose by £1,873,000,000. For reasons which appear to be connected with the subservience of the Bank of England to the Federal Reserve Bank of the U.S.A., the policy of deflation was pursued in Great Britain almost alone amongst industrial countries, with results which are fresh in the memory, but which may be conveniently visualized upon examination of the chart on page 31. During this period the deposits in the five large Joint Stock Banks together only rose by £16,000,000.

The policy of deflation in Great Britain was divided into two stages, the first stage consisting in a rapid reduction in the total amount of currency notes in circulation, the figure being in the first place fixed at 348 millions, as a result of provision that the total in any year should not exceed the minimum circulation of the preceding year. Since the stagnation of trade was itself a prime cause in the reduction of the circulation of Treasury Notes, a progressive reduction from year to year was inevitable, and by I928 the total of Bank of England and Treasury notes had fallen to £260,000,000. *The Federal Reserve Bulletin*, in contrast, remarked in December 1926 that the volume of money in circulation in the U.S.A. on November 1st was larger by £32,000,000 than at the corresponding date in 1925.

The legal liability of the Joint Stock Banks being to deliver legal tender upon demand in the case of their current accounts, and after an agreed period in the case of time deposits, the automatic result of the reduction of Treasury Notes was to reduce by probably ten times the amount of this reduction the amount of credit which the banks were prepared to extend to industry. The effect was that which might logically be expected; the amount distributed in wages in the country fell, although the wage rates to a large extent did not. The purchasing power of the country was diminished, and stocks were thrown upon the market at heavy losses to the producers, with the desired effect that prices fell, not because cost of production fell, but because the producer provided from his own resources a subsidy in aid of cost by selling at a loss. In 1925 the process was accelerated by the restoration of a modified Gold Standard, and in 1928 the Government handed over the Note issue to the Bank of England.

Monop of Cr 52-55.

There is almost nothing to be said for a policy of deflation, as defined by the average banker, except that it provides a breathing space in which to consider what to do; the real argument against it is not that it reduces prices, but that it only does so at the expense of the producer; but a policy of inflation, that is to say a policy of increasing issues of money or credit, in such a manner that it can only reach the general public through the medium of costs, and must therefore be reflected in prices, has one thing and one thing only to be said for it at this time; that it is absolutely and mathematically certain to reduce any financial and economic system to ruins. It is in fact a Capital Levy of the meanest and most one-sided description since it taxes the purchasing power of those who obtained it by work, for the benefit of those who obtain it by financial manipulation.

Soc Cr 102-103.

Effects upon Production

Industrial depression may be characterized as a lack of sufficient orders to keep both plant and personnel employed, together with an accompanying lowering of the price level in relation to the cost of production, so that both the manufacturer fails to make a profit and the volume of wages of the wage-earning class tends to fall. The phenomena are cumulative and have no relation either to productive capacity or psychological demand. The material bye-products are bankruptcies, the breaking up of plant, and the psychological bye-products are industrial and political unrest and the destruction of social *morale*.

Mac Rept.

A trade slump comes; unemployment grows like a snowball, since every man thrown out of work is one man less receiving money, and therefore, one man less in the market to buy goods; our manufacturer, though still willing and able to make his product, cannot sell it, and if this state of affairs continues for any length of time he is ruined. His business organization is probably excellent, but it is broken up and his plant dispersed, and when the trade revival comes a new plant and a new organization has again to be constructed at the expense of the consumer.

Both the employer and the employed are so familiar with this cycle that both take steps which they imagine will protect them against its effects, but which in fact only make confusion worse confounded.

C and D of Prod 89-90.

Futility of Policy of Economy

Consider now the policy actually being pursued at this moment by the Government and the financial powers to deal with the problem. They can be summarized in one sentence—the reduction of costs, and more especially labour costs. But labour costs are wages and form by far the most important item in the total purchasing power inside the country available for the distribution of goods. Even supposing that retail prices were reduced in exact ratio to wage reductions, which is highly improbable or even impossible, how is the distribution of goods to people in this country, which is the true object of British industry, thereby advantaged? As the prices fall by this method, so the amount of money to purchase also falls, and we are as badly off as before, with the added complication of the discontent evoked by the reduction of wages.

C and D of Prod 92-93.

General Diagnosis of Trade Breakdown

There is, I think, a widespread idea that if agitators would only stop agitating, and reformers stop trying to reform, the world would settle down. For myself, I am quite convinced that both agitation and reformism are merely symptoms of a grave and quite possibly fatal disease in our social and economic system, and that unless an adequate remedy is administered there will be an irreparable breakdown. I am emphasizing this lest anyone should imagine that mere laisser-faire or, on the other hand, a vigorous suppression of symptoms is all that is necessary to cause things to 'come right'.

The roots of this disease, then, are as follows:

1. Wages salaries, and dividends will not purchase total production. This difficulty is cumulative.
2. The only sources of the purchasing power necessary to make up the difference are loan and export credits.
3. All industrial nations are competing for export credits. The end of that is war.
4. The major distribution of purchasing power to individuals is through the media of wages and salaries. The preponderating factor in production is improving process and the utilization of solar energy.
5. This latter tends to displace wages and salaries and the consequent distribution of the product to individuals. The credit factor in purchasing power thus increases in importance and dominates production.
6. This production is consequently of a character demanded by those in control of credit and is capital production.
7. The fundamental derivation of credit is from the community of individuals, and because individuals are ceasing to benefit by its use it is breaking down.

C and D of Prod 22-24.

National Credit and Public Need

There is no doubt whatever, and I do not suppose that anyone at all familiar with the subject would dispute the statement for a moment, that the present trade depression is directly and consciously caused by the concerted action of the banks in restricting credit facilities, and that such credit facilities as are granted have very little relation to public need; that, whatever else might have happened had this policy not been pursued, there would have been no trade depression at this time, any more than there was during the War; and that the banks, through their control of credit facilities, hold the volume of production at all times in the hollow of their hands. You will, of course, understand that no personal accusation is involved in this statement; the banks act quite automatically according to the rules of the game, and if the public is so foolish as to sanction these rules I do not see why it should complain.

C and D of Prod 21.

In regard to the mechanism by which the situation can be put right, 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 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.

Warn Dem 34-35.

Foreign Competition and Home Demand

A feature of the industrial economic organization at present is the illusion of international competition, arising out of the failure of internal effective demand as an instrument by means of which production is distributed. This failure involves the necessity of an increasing export of manufactured goods to undeveloped countries, and this forced export, which is common to all highly developed capitalistic States, has to be paid for almost entirely by the raw material of further exports. Now, it is fairly clear that under a system of centralized control of finance such as that we are now considering, this forced competitive export becomes impossible; while at the same time the share of product consumed . . . becomes increasingly dependent on a frenzied acceleration of the process.

Ec Dem 144.

The world, at the present time, operates under a financial system which is in essence a book-keeping system controlling the necessaries of life. This book-keeping 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 recognized 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.

Warn Dem 119.

It must be evident therefore that an economic system involving forced extrusion of product from the community producing, as an integral component of the machinery for the distribution of purchasing power, is entirely incompatible with any effective League of Nations, because the logical and inevitable end of economic competition is war.

Ec Dem 145.

Attempts to 'Restore' Foreign Trade

So long as it was possible to keep the subject of credit away from public discussion it was done, and done well. But merely negative opposition, in the nature of things, being bound to fail, a positive line of action has been elaborated and is now well under way—the exploitation of public credit for export purposes. Apart from the Ter Meulen and Mountain schemes, the Government (*i.e.* Zaharoff-Sassoon) proposals for dealing with 'unemployment' are based fundamentally on an export credit scheme buttressed by relief works at home, the latter to be financed out of taxation. . . . The proposal involves the pledging of public credit to the extent of (at first), say £25,000,000. . . .

That is to say, although the productive capacity of the industrial nations was so enormous that it overtook the wastage of a four and half years' war in eighteen months, so that two and a half millions are unemployed in this country, and probably six millions in America,[1] the energies of the nation are to be employed, not in obtaining the maximum benefit from its existing plant, but in producing still more plant to be exported in competition with countries similarly situated.

This £25,000,000, then, will be paid out in this country as wages, salaries and dividends, entirely unrepresented by any goods for which the general public has any demand whatever. The money so paid out, therefore, represents pure inflation, and, being unaccompanied by any method of dealing with prices, means the inevitable result of pure inflation—a rise in prices. In other words, the goods exported under these conditions are paid for by the general public through the agency of a general rise in prices, but not delivered to them, but the credits, if ever repaid, are repaid not to the general public, but to the banks who will finance these credits. And as at the same time these exports will be in fierce competition with similar goods from, say, America, preparations for the coming war will naturally be accelerated.

C and D of Prod 173-5.

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[1] Written in 1922. The schemes discussed above are, of course, no longer topical, but similar proposals to finance export by the public credit are rife in this and other countries. [Ed.]

Exports and Imports: and the only possible Freedom of Trade

Consider the present situation. It is true enough, as our super-industrialists and orthodox economists are always telling us, that imports are paid for by exports, but on the whole they are content to leave it at that. They do not explain, for instance, how a population which most certainly cannot, and does not, buy its own total production for cash (if it could, there would be no necessity either for home or export credits, and no 'unemployment' problem), can become able to buy the imports which are exchanged for the unpurchasable surplus. They do not, again, explain how a textile worker, paid wages for converting a bale of raw cotton worth, say, £20, into goods worth, say, £60, can benefit if in return for these manufactured goods two more bales of raw cotton at £40 are received—a condition common to trade booms. Nor do they generally publish the fact that English machinery is often sold to export agents abroad at far lower prices than those at which the same machinery can be obtained at home, or that it is possible to buy, in the bazaars of Bombay, a shirt made in Lancashire, for a quarter the price at which the same shirt can be bought retail in Manchester.

The simple facts are that, under existing arrangements our principal preoccupation is the provision of employment—the making of work. On this simple canon hangs the law and the profits. When, therefore, a locomotive is required for the Argentine, and assuming for the moment that it is in any sense sold in the open market, there is a competition, open to the industrial nations of the world, to sell locomotives and to buy wheat, with the usual and logical result that wheat appreciates in price in terms of locomotives, the industrial exporting country continually gives more, and the exporting agricultural country continually less, economic energy in every bargain.

That is the proposition in a nutshell. In order to make a bargain which is just—*i.e.* judicious—the industrial nation must be restored to the position of a free, not a forced, seller, just as to restore social equilibrium inside the nation the individual must be put in the position of a free, not a forced worker. The arrangements which would fulfil these *desiderata* are already sufficiently familiar in principle.

C and D of Prod 85-7.

ILLUSIONS OF NATIONALIZATION

The capitalistic system in the form in which we know it has served its purpose, and may be replaced with advantage; but in any social system proposed, the first necessity is to provide some bulwark against a despotism which might exceed that of the Trust, bad as the latter has become. In our anxiety to make a world safe for democracy it is a matter of real urgency that we do not tip out the baby with the bath water, and, by discarding too soon what is clearly an agency which can be made to operate both ways, make democracy even more unsafe for the individual than it is at present.

Ec Dem 21.

Parties which would appear superficially to be separated by aims utterly divergent, such as, let us say, the German military party and the Fabian section of the British Labour Party, are found on close analysis to have identical objectives—the domination of a system over all effective individual dissent. In each case the steps to the achievement of the end consist in depriving the individual of economic independence either by vesting physical control in the State (conscription) or by 'Nationalizing', through grinding taxation or otherwise, the means of production and abolishing all purchasing power not issued, on terms, by the State.

Cr P and Dem 145-6.

Under such a system the ordinary citizen might, and probably would, be far worse off than under private enterprise freed from the domination of finance and regulated in the light of modern thought.

Ec Dem 21-22.

Ownership of the Means of Production

Any attempt either to socialize administration or to govern by economic coercion quite inevitably leads to centralized organization and centralized credit, resulting in all the well-known phenomena of inefficiency inseparable from the attempted subordination of the human ego to the necessities of a non-human system. The difference is the recognition of the difference between beneficial ownership and administrative ownership. The managing director of the White Star Line was in beneficial ownership of the *Titanic*, he controlled the credit of it; but his attempt to interfere in its administration destroyed the *Titanic*.

C and D of Prod 43-44.

A considerable and articulate body of opinion has committed itself to the belief that the root of the trouble lies in the private 'ownership' of the means of production, by which presumably is meant the plant, raw material, *etc*., and that in consequence the remedy is to be found in Nationalization. . . .

Before considering the prescription, it may be valuable to consider what can be conveyed by the term 'ownership' in connection with such a concern as a boot factory, at the present time.

Cr P and Dem 51-52.

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’.

Warn Dem 25-26.

Taking the simplest case of a one-man ownership, the owner might live in the factory, if he wanted to, or he might burn it down if it was not insured, or otherwise destroy it, in all of which cases it would cease to be a boot factory; or he might appoint himself manager, or he might sell it, in which case he would cease to own it. The essential point is that, considered as a boot factory, it is not of any direct use to its owner after he has had half a dozen pairs of boots out of it each year. What, however, is of value is, firstly, the money-value (*i.e.* credit-value) of it, which is entirely based on his power to make prices for its product in excess of its costs, and secondly, the pleasure which the control of it gives him.

Take away his power to make prices for its product in excess of its costs, and you have taken away all its property value, leaving only the administration value. Such a state of affairs can be brought about without legislation by selective financing. However it is brought about, the fact that it is possible proves indisputably that it is the credit, and not the physical property, which has given private ‘ownership’ so powerful a grip on the community.

Cr P and Dem 51-53.

That from the misuse of the power of capital many of the more glaring defects of society proceed is certain, but in claiming that in itself the private administration of industry is the whole source of these evils, the Socialist is almost certainly claiming too much, confounding the symptom with the disease, and taking no account of certain essential facts. It is most important to differentiate in this matter, between private enterprise utilizing capital, and the abuse of it.

Ec Dem 19-20.

The Genuine Urge in Socialism

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.

Warn Dem 23.

State Socialism is based on the premise that, firstly, the control of policy is resident in administration, and, secondly, that it is possible to ‘socially’ control administration, and thirdly, that the State should be able to supply economic pressure to the individual; whereas I suggest to you that the control of policy is resident in credit (fundamentally, in the belief in the beneficial outcome of any line of action) and its financial derivations of which money is one, while administration is a technical and expert matter not susceptible of being socialized, and, lastly, that the only possible method by which the highest civilization can be reached is to make it impossible for either the State or any other body to apply economic pressure to any individual.

C and D of Prod 43.

Centralized Control in Industry

We are faced with an apparent dilemma, a world-wide movement towards centralized control, backed by strong arguments as to the increased efficiency and consequent economic necessity of organization of this character (and these arguments receive support from quarters as widely separated as, say, Lord Milner and Mr. Sidney Webb[1]) and, on the other hand, a deepening distrust of such measures bred by personal experience and observation of their effect on the individual.

Ec Dem 37.

Because the control of capital has given power, the effect of the operation of the will-to-power has been to accumulate capital in a few groups, possibly composed of large numbers of shareholders, but frequently directed by one man; and this process is quite clearly a stage in the transition from decentralized to centralized power.

Ec Dem 24.

Now it may be emphasized that a centralized or pyramid form of control may be, and is in certain conditions, the ideal organization for the attainment of one specific and material end. . . . The advantage accruing from the use of it for the attainment of one concrete objective, such as, let us say, the coherent design of a National railway or electric supply system (just so long as these objects are protected from use as instruments of personal and economic power) is quite incontrovertible; but every particle of available evidence goes to show that it is totally unsuitable as a system of administration, for the purposes of governing the conditions, under which a whole people lives.

Ec Dem 18-19.

This type of organization carried out to its furthest limits is pyramid control in its simplest form, and it is clear that successive grades or ranks decreasing regularly in the number of units composing each grade, until supreme power and composite function is reached and concentrated at the apex, are definitely characteristic of it.

The next step is to split the functions of the higher ranks so that each

[1] Lord Passfield.

unit therein becomes the head of a separate little pyramid, each of which as a whole furnishes the unit composing a larger pyramid; in every case, however, eventually concentralizing power and responsibility in one man, representing the power of finance and of control over the necessaries of life.

Ec Dem 48-49.

Several points are to be noticed in the conditions produced by such an arrangement: Firstly, there is a fundamental inequality of opportunity. The more any organization, whether of society as a whole or any of the various aspects of it, approaches this form the more certain is it that there cannot possibly be any relation between merit and reward—it is, for instance, absurd to assume that there is only one possible head for each railway company, Government Department, or great industrial undertaking. There is no doubt whatever that the intrigue which is a commonplace in such undertakings has its roots almost entirely in this cause, and contributes in no small degree to their notorious inefficiency.

Another objection which becomes increasingly important as the concentration proceeds is the divorce between power and detail knowledge. This difficulty is recognized in the appointment of official and unofficial intelligence departments which, of course, are in themselves the source of further abuses.

Ec Dem 49-50.

The 'efficiency' of very large undertakings is a paper efficiency based on access to credit, bulk buying, and price making, and in many cases has no physical basis, the genuine efficiency of the smaller undertaking being frequently higher.

Mac Rept.

It is a most astonishing fact that the experience of hundreds of thousands of men and women in such departments as the Post Office, where real discontent is probably more general, and the material and psychological justification for it more obvious, than in any of the more modern industrial establishments, has not been sufficient to impress the public with the futility of mere nationalization. This is not in any sense a disparagement of the excellent qualities of large numbers of Government officials; it is merely an attempt to indicate the remarkable facility with which well-intentioned people will allow themselves to be hypnotized by a phrase.

Ec Dem 23.

Nationalization without decentralized control of policy will quite effectively instal the trust magnate of the next generation in the chair of the bureaucrat, with the added advantage to him that he will have no shareholders' meeting.

Ec Dem 25.

Nationalization means nothing more than centralized control of credit, the objective for which high finance in every country is striving, with as plausible a motive as, say, the Miners' Federation, and more technical capacity.

Cr P and Dem 57.

Labour Share in Control

In the face of the determination of organized Labour to 'share in the control of industry', see how a broadminded Press agrees with them. It is all for a Guild Socialism of the glorified Whitley Council variety. The columns of any metropolitan newspaper in England or America are open to the description or discussion of such 'committee' schemes, and will print reams of articles by their more distinguished advocates, even where they condemn their conclusions. From which the cynically-minded may justifiably conclude that there is no danger to capitalism in a bushel of them.

Cr P and Dem 5-6.

The Real Problem of Industry

It will be seen, therefore, that we have in the industrial field a double problem to solve: while retaining the benefits of mechanism for productive purposes to obtain effective distribution of the results and to restore personal initiative.

Ec Dem 51.

It is clear that if we replace the foreman, the manager, and the chairman, each by a committee, all that we do is to affirm our belief that it is better to have half a dozen men giving orders than one man—a belief that may or may not be well founded, but, in any event, is not likely to result in the democratic control of production. The shareholders, it is true, are already a committee, and would seem at first sight to have no master; but how much latitude in making decisions have they?

Now, this is the citadel of the fortress we are attacking, for power to make decisions is freedom for the individual, and a shareholder in a trust-capitalistic manufacturing enterprise has no power to change the fundamental policy of the concern, *which is to pay its way as a means to the end of maintaining and increasing its financial credit with the banks*.

Cr P and Dem 6-7.

I am not here in any way to defend those persons who are referred to as 'captains of industry'; in many cases they are men of quite extraordinarily narrow abilities, but I have, for my own part, no doubt whatever that any attempt to replace them *en masse* is quite unpracticable. If you could imagine any of the orthodox socialistic schemes to come into operation in this country—which I am quite sure they never will—it is a matter of almost mathematical certainty that within five years you would see about 75 per cent of the same persons filling what would be, in essence, the same executive positions under different official titles.

If you accept these statements as being a fair presentation of the situation, you will agree that only one conclusion can be drawn from them, and that is, that it passes the wit and the capacity of human beings to obtain generally satisfactory results from the existing financial system, and that no mere change in persons could be expected to produce an acceptable result.

B of Em Syst 4-5.

The only claim which any individual or collection of individuals has to operate and administer the plant of society is that they are the fittest persons available for the purpose. This can only be the case where there is natural attraction between a man and his work, because no man or woman ever excelled at any pursuit for which they entertained a dislike when in competition with numbers of persons who added to equal capacity an affinity for their occupation. Secondly, that as the operators, though vital to the result, are only one of the factors contributing to the result and by no means the most difficult factor to replace, they are not, as operators, concerned with either what is produced, who produces it, or who gets it when it is produced; that is the business of those who provide the reason, the inducement to produce—the individuals who collectively compose society.

Cr P and Dem 113-14.

In order to arrive at a sound conclusion in these matters it is necessary to start where all things start—in Nature—and to decide what are the motives which actuate men in this connection with the economic and industrial systems; and it is true, as well as proverbial, that self-preservation is the first law of Nature. Man does not live by bread alone, but he does not live very long without a reasonable amount of food, clothes and shelter. Secondly, and subsequently, he requires, and this increasingly, an outlet for the creative spirit. It may be noted in passing that it is just at this point that the 'intellectual' is apt to fail in interpreting the great mass of humanity engaged in a deadly grapple with the weekly household bills, a battle which must in most cases be won decisively before the surplus energy becomes available for the satisfaction of the need of self-expression.

TPD & LP 7.

The Objective of Industrial Reform

(1) The existing difficulties are the immediate result of a social structure framed to concentrate personal power over other persons, a structure which must take the form of a pyramid. Economics is the material key to this modern riddle of the sphinx because power over food, clothes, and housing is ultimately power over life.

(2) So long as the structure of Society persists, personality simply reacts against it. Personality has nothing to do with the effect of the structure; it merely governs the response of the individual to conditions he cannot control except by altering the structure.

(3) It follows that general improvement of conditions based on personality is a confusion of ideas. Changed personality will only become effective through changed social structure.

(4) The pyramidal structure of Society gives environment the maximum control over individuality. The correct objective of any change is to give individuality maximum control over environment.

Ec Dem 98-99.

PART 1V

THE JUST PRICE

The practical problem, then, is to make it certain that commodities are produced under satisfactory conditions, and equally certain that they are distributed according to necessity.

Ec Dem 94.

The general answer to this problem may be stated in the four following propositions, which represent an effort to arrive at the Just Price:

(1) Natural resources are common property, and the means for their exploitation should also be common property.
(2) The payment to be made to the worker, no matter what the unit adopted, is the sum necessary to enable him to buy a definite share of ultimate products irrespective of the time taken to produce them.
(3) The payment to be made to the improver of process, including direction, is to be based on the rate of decrease of human time-energy units resulting from the improvement, and is to take the form of an extension of facilities for further improvement in the same or other processes.
(4) Labour is not exchangeable; product is.

No attempt will be made to prove these propositions since their validity rests on equity. It should be noted particularly that none of these points has any relation to systems of administration, although a recognition of them would radically affect the distribution of personnel in any system of administration.

Ec Dem 110-11.

The Control of Effective Demand

We have now arrived at this position; we desire to produce a definite programme of necessaries with a minimum expenditure of time-energy units. We agree that the substitution of human effort by natural forces through the agency of machinery is the clear path to this end; and we require to correlate to this a system which will arrange for the equitable distribution of the whole product while, at the same time, providing the most powerful incentive to efficiency possible.

Ec Dem 109-10.

Subject to fundamental provision that they deliver the goods to order, it is no business of the *controllers* of policy, the community, *how* the producers deliver them—that is a matter for agreement amongst the producers. The goods having been delivered to order, it is the business of the community, to whose order they were made, to dispose of them—not the business of the producers, who would never have been able to function without the consent of society.

C *and D of Prod* 36.

Rate of Issue of Prices and Purchasing Power

In order, then, to acquire public control of economic policy, we have to control the whole mechanism of effective demand—the rate at which its vehicle, financial credit, is issued, the conditions on which it is issued, and take such measures as will ensure that the public, from whom it arises, are penalized by withdrawal of the vehicle to the minimum possible extent. It must be obvious that the real limit of the rate at which something representing purchasing power could be issued to the *public* is equal to the maximum rate at which goods can be produced, whereas the 'taking back' through prices of this purchasing power should be the equivalent of the fraction of this potential production which *is* delivered.

Let us imagine that wages, salaries and dividends, added together, were issued via the productive industries at a *rate* representing the maximum possible production of ultimate products, and actual consumption was only one quarter of potential production. Then, clearly, the community would only have exercised one quarter of its potential demand. But the whole of the *costs* of production—the issues of purchasing power through the agencies of wages, salaries and dividends—would have to be allocated to the *actual* production as at present, and if we charge the public with the whole cost of production their total effective demand is taken from them.

But if we apply to the ascertained cost of production a fractional multiplier equal to the ratio of actual consumption to potential production, than we take back in prices that portion of the total purchasing *power* which represents the actual energy draft on the productive resources of the community, and the price to the actual consumer would be, in the case above mentioned, 75 per cent less than commercial cost.

C and D of Prod 47-49.

Selling Below Cost

Now habits of thought are so powerful in their influence that at first sight a statement that the correct *price* of an article may be a low percentage of its *cost* is apt to induce both disbelief and ridicule. But if the matter be attacked from the other end, if it be realized that an article cannot be sold, nor can its exchange through *export* be sold, unless its average price is considerably less than cost; that if it cannot be sold the effort expended in making it is wasted; that if it is exported competitively every economic force is driving the community irresistibly towards war; it may then be agreed that it is worth while to consider whether the accepted principles of price making are so sacred that a world must be brought to ashes rather than that they should be analysed and revised.

C *and D of Prod* 79-80.

The re-identification of real credit with financial credit is the vital issue; and it is proposed to show that this is dependent, in the first place, on the removal of the price-fixing process from the play of financial supply and demand, and the reference of it to the ratio between the credit-value of capital production and the diminution of that credit-value by consumption.

TPD & *LP* 11.

If I have made myself clear, you will see that credit-issue and price-making are the positive and negative aspects of the same thing, and we can only control the economic situation by controlling both of them—not one at a time, but both together, and in order to do this it is necessary to transfer the basis of the credit-system entirely away from *currency,* on which it now rests, to *useful productive capacity*. The issue of credit instruments will then not result in an expansion of money for the same or a diminishing amount of goods, which is inflation, but in an expansion of goods for the same or a diminishing amount of money, which is deflation.

C *and D of Prod* 49.

Now the *core of this problem is the fact that money which is distributed in respect of articles which do not come into 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.

C *and D of Prod* 72.

The Formula for Price-Compensation

Price shall bear the same ratio to Cost as the total National Consumption of all descriptions of commodities does to the total National Production of Credit--*i.e.*

Cost : Price :: Production : Consumption.

Therefore, Price per ton =

$$\text{Cost per ton} \times \frac{\text{Cost value of Total Consumption}}{\text{Money value of Total Production}}$$

[Total National Consumption includes Capital depreciation and Exports. Total National Production includes Capital appreciation and Imports.] *Cr P and Dem* 151.

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.

C *and D of Prod* 72-73.

Effect of Just Price on Foreign Trade

If, as is suggested in the ideas that I have put forward, a considerable proportion of the credits which are created in the country is 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

$$\frac{\text{unit purchasing power}}{\text{unit prices}}$$

is raised. 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.

Warn Dem 47-49.

The Just Price a Ratio, not an Absolute Measure

It will, of course, be understood that no *absolute* unit of measure of value is either possible or needful; it is, however, the popular delusion that a gold or other standard is an absolute measure of value which has obscured the economic problem for so long. The only possible standard which can be applied with accuracy to the measurement of economic value is that of ratio, a standard which does not require that we postulate anything at all about the unit used to establish the ratio, except that it is the same unit. To readers who are familiar with the mathematical hypothesis known as the theory of relativity, the basis of which may be quite simply expressed in the statement that it is impossible by means of physical measurements to determine the absolute velocity of a body through space, certain analogies will no doubt present themselves. For the average person, not particularly interested in such matters, no difficulty arises in grasping what is meant by 'ten miles per hour', even though he cannot conceive of 'a mile' as distinct from 'a mile long'. When, therefore, we say that:

$$\text{True price (in £)} = \text{cost (in £)} \times \frac{\text{cost of ultimate products consumed (£)} + \text{depreciation of real capital in £}}{\text{credit created (in £)} + \text{cost of total production (£)}}$$

we do not require to know anything about the properties of the pound sterling; we do not, for instance, require to know what is the absolute quantity of labour for which it is a 'just' remuneration, and still less is it a matter of the slightest interest how much gold it represents. We are simply saying in effect: 'Credit, convertible into money, is a correct estimate of the capacity of society with its plant, culture, organization, and moral, to deliver goods and services desired by individuals. Whatever unit we adopt for it, the number of these units held by the individuals who collectively compose society must be such that by surrendering these units they will receive in exchange all the goods and services which society can possibly deliver. As society's *capacity* to deliver goods and services is increased by the use of plant and still more by scientific progress, and decreased by the production, maintenance or depreciation of it, we can issue credit, in *costs,* at a greater rate than the rate at which we take it back through *prices* of ultimate products, if *capacity* to supply individuals exceeds desire. This it can always be made to do, by ensuring that the production of capital goods is secondary to a sufficient production of ultimate products and their delivery to individuals.'

Cr P and Dem 131-3.

Conditions necessary to Price-compensation

We have every type of information required to fix the ratio we require at our disposal at any moment. The loan credit accounts of the banks, plus the ways and means and note and bond issues of the Treasury, plus the increase in capitalization of productive organizations, roughly represent credit creation; cost of production is obtainable from the 'factory' cost accounts, including now agricultural production accounts; the quantity and consequently the collective cost of articles bought by (*i.e.,* delivered to) the public is available through such departments as the Ministry of Food, the Board of Inland Revenue, the Board of Trade, *etc*. In order to transform the measure of financial credit which these figures would give us into a measure of real credit, only two things are required: first, that control of credit-issue shall be in the hands of the consumer, so that production is moulded to his needs; and secondly, that the number of credit units in the hands of the public shall be that necessary at any moment to buy the whole possible output of society, both of which premises are eventually met by the arrangements previously described. That they are not met by the existing economic system is self-evident on a consideration of, say, the relative amount of expenditure during the last ten years on factories as compared with that on houses; and on the other hand the utter insolvency of the British banking system during the few days immediately subsequent to the outbreak of war with Germany.

Cr *P and Dem* 133-4.

Price Compensation presents no Practical Difficulty

It should be emphasized that the practical operation of a price factor of this character involves no difficulty and is, in fact, in various forms a commonplace of business operations at the present time. As compared with the complex system of discounts which are a feature of every business, and vary not merely from business to business, but from one department of the same business to another, the application of a uniform price factor for the purpose of reducing the general price level is a matter of elementary simplicity.

Soc Cr 193.

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

Warn Dem 105-7.

THE NATIONAL DIVIDEND

Dividends and 'Doles'

Since the institution of a modified financial system And 'Doles' 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.'

Warn Dem 5-6.

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 demoralizing 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 generalization 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.

Warn Dem 7.

Fundamentally, when it ceases to be an insurance claim, the dole is a small dividend on the National Income—a forerunner of 'Dividends for All'—it is certainly the Cinderella of dividends, and is treated accordingly. Collectively, it is put in the foreground as being one of the chief sources of expense contributing to the burden of taxation under which the rest of the community is struggling, and thus has the effect of creating a feeling of hostility against its unfortunate orthodox recipients, which may be compared with the Socialist outcry against other and more familiar forms of dividend. The enforced leisure enjoyed by those who participate in it, is rendered practically valueless by the regulations which surround it.

Soc Cr Ill.

Work as a Moral Imperative

It used to be a very common argument that the spur of economic necessity was ennobling to the character. . . . The struggle to overcome difficulties is most unquestionably ennobling, but we have I think reached a stage when our attention may with advantage be diverted from the somewhat sordid struggle for mere existence.

C and D of Prod 38-39.

The existing economic system, on the contrary, ably backed by the Marxian Socialist, takes as its motto that saying which I cannot help thinking proceeded rather from Saul of Tarsus than from the Apostle of Freedom—'If a man will not work, neither shall he eat'—defining work as something the price of which can be included in costs and recovered in price.

It completely denies all recognition to the social nature of the heritage of civilization, and by its refusal of purchasing power except on terms, arrogates to a few persons selected by the system, and not by humanity, the right to disinherit the indubitable heirs, the individuals who compose society.

C and D of Prod 15-16.

When we leave the easy ground of generalities and come down to concrete detail, we find it overwhelmingly difficult to define useful work. Not only is it difficult, but it is in the highest degree mischievous.

Cr P and Dem 10-11.

Real Demand should be made Effective Demand

Before an intelligent system of regional planning can be inaugurated with any hope of success, some agreement is necessary as to whether unemployment, in its alternative description of leisure, is a misfortune or whether it is a release. If it is a release, then obviously it must not be accompanied by economic, or rather financial, penalization. If it is a misfortune, then clearly every effort should be directed to restraining the abilities of those engineers and organizers who are prepared to make not two, but two hundred blades of grass grow where one grew before.

Monop of Cr 78.

Now if there is any sanity left in the world at all, it should be obvious that the real demand is the proper objective of production, and that it must be met from the bottom upwards, that is to say, there must be first a production of necessaries sufficient to meet universal requirements; and, secondly, an economic system must be devised to ensure their practically automatic and universal distribution; this having been achieved it may be followed to whatever extent may prove desirable by the manufacture of articles having a more limited range of usefulness. All financial questions are quite beside the point; if finance cannot meet this simple proposition then finance fails, and will be replaced. It has been estimated that two hours per week of the time of every fit adult between the ages of eighteen and forty-five would provide for a uniformly high standard of physical welfare under existing conditions, and without endorsing the exact figures it is perfectly certain that distribution and not manufacture is the real economic problem and is at present quite intolerably unsatisfactory.

Ec Dem 85-86.

The Leisure State

If we assume that the constant efforts to reduce the amount of labour per unit of production are justified, and we recognize the unquestionable fact that the genuine consumptive capacity of the individual is limited, we must recognize that the world, whether consciously or not, is working towards the Leisure State. The production system under this conception would be required to produce those goods and services which the consumer desires of it with a minimum and probably decreasing amount of human labour. Production, and still more the activities which are commonly referred to as ‘business’, would of necessity cease to be the major interest of life and would, as has happened to so many biological activities, be relegated to a position of minor importance.

Monop of Cr 78-79.

In a physical sense we should then be living in a world in which economic processes were carried out by two agencies, one as heretofore, the agency of individual effort, and from an economic point of view of decreasing importance; and the other, the result of the plant, organization and knowledge which are the cumulative result of the effort not only of the present generation, but of the pioneers and inventors of the past. This second agency can, of course, be collectively described as real (as distinct from financial) capital. Now It is quite easy to make out a perfectly simple ethical justification for the proposition that the share of the product due to the individual under such a state of affairs would be (1) a small and decreasing share due to his individual efforts, and (2) a large and increasing amount due to his rights as a share-holder or an inheritor, or if it may be preferred, a tenant for life of the communal capital.

Monop of Cr 79.

We want, therefore, to put more and finally all people in this position, not to remove from it those who are already there, always assuming that the alternative exists; and to do that we want so to organize the machinery of production that it serves the single end of forming the most perfect instrument possible with which to carry out the policy of the community; and so to empower the community that individuals will submit themselves voluntarily to the discipline of the productive process, because in the first place they know that it is operated for production and so gains their primary ends with a minimum of exertion, and in the second place because of the interest and satisfaction of co-operative, co-ordinated effort.

C and D of Prod 39-40.

Shareholders in the Community

Let us at this point for the sake of clarity identify the community with the nation and in doing so be careful not to confuse administration with ownership. It ought not to be difficult to see that a situation which may truly be described as revolutionary is disclosed. In place of the relation of the individual to the nation being that of a taxpayer it is easily seen to be that of a shareholder. Instead of paying for the doubtful privilege of being entitled to a particular brand of passport, its possession entitles him to draw a dividend, certain, and probably increasing, from the past and present efforts of the community of which he is a member.

Monop of Cr 80-81.

Under these conditions the community can be regarded as a single undertaking (decentralized as to administration to any extent necessary) and every individual comprised within it is in the position of an equal Bondholder entitled to an equal share of product. The distribution of the product is simply a problem of the arbitrary adjustment of prices to fit the dimensions of a periodical order to pay, issued to each bondholder, and it will be found that such prices will normally be less than cost, as measured by existing methods. Let this annual order to pay be inalienable, but carrying the assumption that a definite percentage of the individual's stock of time-energy units is freely placed at the disposal of the community.

Ec Dem 114-5.

The Social Heritage

The National Debt, which he (the citizen) did not create, becomes a national credit which is a reflection of the national capital which he did create. His budget is not required to balance because his wealth is always increasing. He does not require to fight for foreign markets since obtaining foreign markets merely means a longer working day. Having more leisure he is less likely to suffer from either individual or national nerve strain, and having more time to meet his neighbours can reasonably be expected to understand them more fully. Not being dependent upon a wage or salary for subsistence, he is under no necessity to suppress his individuality, with a result that his capacities are likely to take new forms of which we have so far little conception.

Monop of Cr 80-81.

The early Victorian political economists agreed in ascribing all 'values' to three essentials: land, labour, and capital. But it is rapidly receiving recognition that, while there might be a rough truth in this argument during the centuries prior to the industrial revolution consequent on the inventive period following the Renaissance, and culminating in the steam engine, the spinning-jenny, and so forth; there is now a fourth factor in wealth production, the multiplying power of which far exceeds that of the other three, and which may be expressed in the words of Mr. Thorstein Veblen as the 'progress of the industrial arts'. Quite clearly no one person can be said to have a monopoly share in this; it is a legacy of countless numbers of men and women, many of whose names are forgotten and the majority of whom are dead. And since it is a cultural legacy, it seems difficult to deny that the general community, as a whole, and not by any qualification of land, labour, or capital, are the proper legatees. But if the ownership of wealth produced vests in the owners of the factors contributing to its production, and the owners of the legacy of the industrial arts are the general community, it seems equally difficult to deny that the chief owners, and rightful beneficiaries of the modern productive system, can be shown to be individuals composing the community, as such.

Soc Cr 49-50.

The Unearned Increment of Co-operation

This unearned increment rests inalienably on a basis of Capital, not *of Labour*; and if Capital derives from, and should be vested in the community, as is broadly speaking incontestable, then it is as members of the community, *tout court*, unconditionally, that individuals should benefit by this unearned increment. The dividend is the vehicle for the distribution of this unearned increment, and it is in the universalization of the dividend, and not in its abolition, that we shall achieve freedom. Only when this is realized will it be grasped that it is better for everyone concerned, and especially for Labour, that the routine operators of the plant of civilization should be selected solely for efficiency, subject to the most drastic competition, and progressively displaced by machinery.

Dividends on Capital, then, come from a true unearned increment, and the recipient of dividends is only the pioneer of the future Citizen. But a dividend, in the ordinary sense of the word, is a payment of 'money' of which, we have already seen, credit is the vital component, and although credit derives from the community, the organ of credit-issue, its mobilizer, is the bank. The most important and fundamental function of a bank should be to envisage the capacity of the community it serves, taken in conjunction with its plant and culture, to meet the demands made upon it; and, under democratic control, to issue purchasing power, on behalf of the community (the true state) up to the limit of this capacity, so that as individuals the units composing the community can set in motion the machinery which will make such demands effective.

TPD & LP 13-14.

Under such an arrangement, wages and salaries become what they are in fact at present—merely a credit grant against future production, and a measure of the human energy put into production. This credit grant would be cancelled by the writing down of the national assets to an extent represented by the sum of wages and salaries, the assumption being, of course, that the wages and salaries represent the consumption of goods over a given period which have to be debited against the production of the same period. The dividend which is declared over the equivalent period represents the division of the difference between actual consumption and actual production (both of actual products and production capacity) over the same period.

Soc Cr 186-7.

This scheme has been fairly widely discussed, both here and in America, but there is one feature of it which will perhaps bear a little elaboration—the obvious traversing of all accepted Socialist policy in the provision not only for the continuance of dividends to present shareholders, but the wide extension of those dividends to still more shareholders.

C and D of Prod 30.

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.

Warn Dem 74.

Public Control of Policy not of Administration

We do not acquire, by these suggested methods, control by the public, as such, of the processes of production—the 'how' it shall be done. That is not the business of the public, as such, but of experts. But by controlling both credit-issue and price-making the public acquires control of policy with all its attributes—the effective appointment and removal of personnel, amongst others. The essential nature of a satisfactory modern co-operative State may be broadly expressed as consisting of a functionally aristocratic hierarchy of producers accredited by, and serving, a democracy of consumers. The business of producers is to produce; to take orders, not to give them; and the business of the public, as consumers, is not only to give orders, but to see that they are obeyed as to results, and to remove unsuitable or wilfully recalcitrant persons from the aristocracy of production to the democracy of consumption.

CrP and Dem 94-95.

But, and it is vital to the whole argument, improved process must be made the servant of this objective, that is to say a process which is improved must, by the operation of a suitable economic system, decrease the time-energy units demanded from the community or, to put the matter another way, all improvements in process should be made to pay a dividend to the community.

Ec Dem 101.

You will understand that the physical facts of production are such that, operated in this way, only a small proportion of the world's population, working short hours, could find employment directly in the industrial process-a condition of affairs which is cumulative and reduces to an anachronism the complaint of the early Victorian Socialist against the idle rich, and to an absurdity the super-Industrialist cry for greater production at a cost of harder work. To anyone to whom this aspect of the case is unfamiliar, I would commend the works of Mr. Thorstein Veblen on Capitalist Sabotage, or the more specialized conclusions of the late H. M. Gantt and his partner, Mr. Walter Polakov. The present preoccupation of the financial system is to hide the enormous capacity for output which modern methods have placed at our disposal; and it is fairly successful in its efforts, so far.

C and D of Prod 40.

In passing, it may be observed that Labour has never been in danger from the Idle Rich—it is the hardworking rich who are the chief champions of the status quo.

Cr P and Dem 13.

Freer Distribution the Condition of Improved Production

The more the maintenance of life can be shifted from the backs of men on to the backs of machines, the more important it is to find a creative outlet for the human energy released, and the more certain is it that a considerable portion of this energy will, without compulsion, be devoted to the improvement of the industrial machine. That is to say, if a practical policy based on these considerations be pursued there will be a fall in the man-hours required for routine or operating work, and a consequent rise in the man-hours available for design and research work. The industrial machine is a lever, continuously being lengthened by progress, which enables the burden of Atlas to be lifted with ever-increasing ease. As the number of men required to work the lever decreases, so the number set free to lengthen it increases. It is true that, owing to the defective working of an outworn financial system, the lengthening of the lever has been offset by obstacles to its beneficent employment, but these very obstacles, by raising up a world-wide unrest, will secure a rectification of the means of distribution, which is the first step to a better state of things.

Cr P and Dem 20-21.

Common Objections to Social Credit

The most grotesque objections have been raised to issues of credit in the manner I have just outlined; in fact, it is a remarkable thing that large numbers of persons, who cannot honestly be suspected of direct connection with the banking system, seem feverishly anxious to ridicule it. The first objection raised is that it would raise prices, a really remarkable statement in view of the fact that the suggested use of credit is absolutely contingent on a fall of prices. If cornered in regard to this objection, these persons say that it would result in a queue of the type familiar during the latter years of the First World War. The answer to this is, of course, that again the suggested credit issue is contingent on the ascertained fact that potential production is always in excess of consumption. It will usually be found that when the quasi-practical objections have thus been disposed of, the objector discloses his real position, which is what he calls a moral objection, that he hates the very idea that anyone should be comfortable in this world without being made very uncomfortable in the process. Some years ago I had the experience of discussing these proposals with Mr. and Mrs. Sydney Webb, and after disposing, one after the other, of the objections raised to the feasibility of the scheme, I was met with an objection with which, I confess, I found myself wholly unable to deal, and I recognize that objection in the Labour Party report on the Douglas proposals. The words in which it was made to me are worth putting on record. They were: 'I don't care whether the scheme is sound or not; I don't like its object.' That is a clear-cut issue; it is an issue which goes right down to the bedrock of human philosophy. It claims that human nature is essentially vile, and can only be kept within bounds by being kept so busy that it has no time to get into mischief.

B of Em Syst 11-12.

Leisure and Progress

It is more generally suggested that leisure, meaning by that freedom from employment forced by economic necessity, is in itself detrimental; a statement which is flagrantly contradicted by all the evidence available on the subject. It is hardly an exaggeration to say that 75 per cent of the ideas and inventions, to which man kind is indebted for such progress as has been so far achieved, can be directly or indirectly traced to persons who by some means were freed from the necessity of regular, and in the ordinary sense, economic employment, in spite of the fact that such persons have never been more than a small minority of the general population. Even where transcendent genius has been able to overcome the limitations of financial stringency, it is highly probable that the results achieved have been nothing like those which would have enriched the world had those barriers been non-existent. . . . It is probably true enough that there is an appreciable percentage of the population in respect of which any sudden access of material prosperity would be attended with considerable risk, and for that reason the transition from a state of artificial scarcity such as exists at the present time, to a state of prosperity, is most desirably accomplished by methods which do not too suddenly invest such persons with powers which they have not learnt to use. But to suggest that an obsolete and outgrown system of organization must be retained because of this risk, is to refuse to develop the railway, because of its detrimental effect upon the stage coach.

Soc Cr II 5-7.

At this point we begin to touch the 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.

Warn Dem 83.

Present Position and Strategy of Financial Reform

I do not myself believe that we can take to ourselves credit . . . 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 centralization of power, of which the latest form comes under the name of 'Rationalization'.

In my opinion there is no fundamental difference between 'Rationalization' as sponsored by Lord Melchett and Sir Herbert Samuel, and Nationalization 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.

Warn Dem 146.

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. . . . The first point to realize 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 to-day, and that is 'banking' with its twin sister 'insurance'. You cannot realize 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.

Warn Dem 147.

Since, however, most men are complex characters, it is probably true that an effective appeal can be made to a very large majority if the appeal is made in the right way. It is my considered opinion that the right way with most people is to discountenance severely any discussion of the general advisability of such matters as we have been considering, and, as far as possible, to put the appeal in the form: 'Suppose that you yourself were offered certain conditions, such as we suggest, under which to carry on your business or your own personal economic life, would you accept them?'

Soc Cr 202.

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 anyone 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 civilization.

Warn Dem 139-40.

In conclusion, however, I should like to emphasize one very important aspect of the whole problem. The desired solution has no basis in sentimentality or abstract Pacificism. 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 civilization 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. . . . 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.

Warn Dem 75-76.

Unselfish aspirations, good intentions, beautiful phrases—none of these by themselves will affect the issue by so much as one hair's breadth. If the public of this or any other country is really desirous of once and for ever freeing itself from the power of the economic machine, and using the immense heritage which science and industry have placed at its disposal, it has to throw up and place in positions of executive authority men who are technicians in so broad a sense that they understand that the very essence of perfect technology is to devise mechanism to meet the requirements, the policy of those who appointed them.

Cr P and Dem 85-86.

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