THE NEW AGE

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NOTES OF THE WEEK.

The Birmingham Debate.

For the convenience of our subscribers we are publishing the whole of the Birmingham Debate in the present issue. This has entailed our not only adding four pages, but also holding over the main body of our "Notes," together with Music, Theatre, Films, and other usual features. We apologise to our contributors, but trust that in the special circumstances they will not feel reproachful.

Free Credit

It is important for supporters of Major Douglas to be quite clear about what "free credit" means. Up to a very recent date advocacy of the distribution of "free credit" has been an exclusive characteristic of Social Credit propaganda. For this reason the Douglas rank-and-file – and even Douglas officers – may be disposed to look upon such advocacy in new quarters as a sign of success in their propaganda, and to regard the new advocates as useful allies. But this does not follow at all. Credit is "free" or not "free" in the Social Credit sense according to the conditions of its use when in circulation, and not merely according to the conditions of its injection into circulation by the banks or some other Credit Authority. Briefly, credit can be "given" in form and yet not be "given" in substance. Social Credit demands the gift in substance; and before the General Staff of the Social Credit forces enter into collaboration with the leaders of other "free-credit" forces they must make sure that the basis is one of substance, not of form.

A credit is "free" in form when a Credit Authority transfers it to some recipient without requiring him to return it or to pay interest on it. If such is the essence of a "gift" of credit is it different from a *loan in perpetuity* to that recipient? Certainly not in substance. Then how about form? Apparently neither in that, too, provided that no interest is recovered, and no moral obligation on the part of the recipient to pay interest is recognised. The distinction thus lies in an attitude of mind. A credit is a loan or a gift according to whether the recipient is supposed to be under a moral obligation to return it or is supposed to have the moral right not to do so. Against this background the true significance of Interest is seen. A rate of interest implies an agreement to pay it; and that agreement implies an obligation to return the credit. An interest-rate is a visible symbol of a moral obligation on the part of the recipient to the authority issuing the credit. Fundamentally, Interest is like the seal on a legal document; it is the little red wafer on which the recipient of a credit swears himself a borrower, and swears his acceptance of the moral responsibility conventionally laid upon him as such. Thus, he might say: "I swear to regard this credit as the property of the lender, and to regard it as something which it is my duty to return to the lender." The *rate* of interest has no more significance than the size of a wafer on a legal document. It is the footprint of an oath.

THE BIRMINGHAM DEBATE.

Debate between Mr. R. G. Hawtrey and Major C. H. *Douglas* on *Social Credit at the Central Hall, Birmingham,* on *Wednesday, March* 22, 1933.

I. – Diagrams.

Put in by Major Douglas to illustrate the scope and nature of the Social Credit Analysis.

FIG. 1

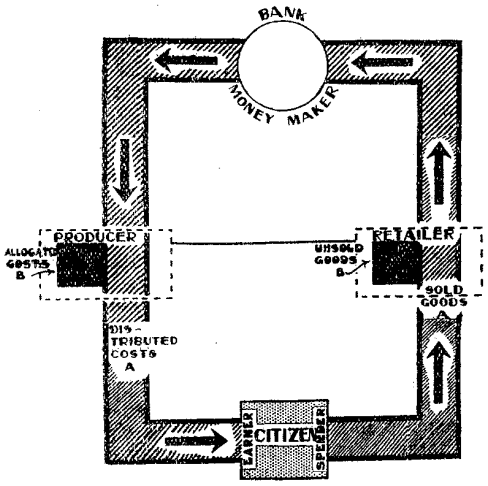
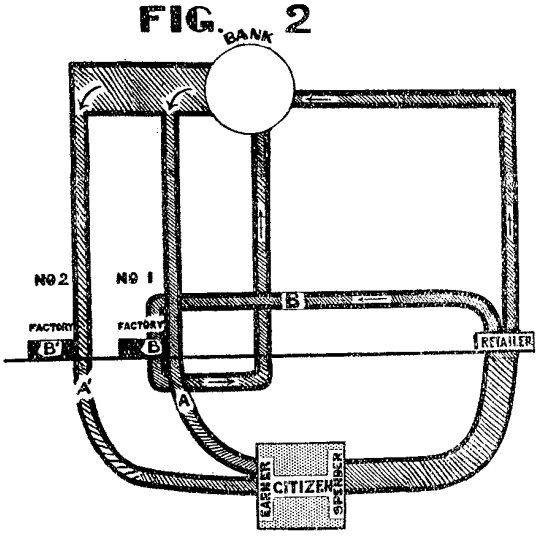


FIG. 2



II. – Opening Statement and Reply.

MR. HAWTREY'S STATEMENT.

I have two preliminary remarks to make. The first is that it is a great pleasure to me to have this opportunity of meeting the Birmingham Social Credit Group, and particularly also of meeting Major Douglas personally. The second is that, as I am a Government official, I ought to explain that what I have to say this evening represents my own personal views, and is not to be associated in any way with my official position.

Before setting out to criticise the doctrines of Major Douglas, I should like to say that on certain matters I am in entire accord with him. Among these I would especially mention his view that the demand for commodities arises from incomes and that incomes arise out of production. Further, I agree with him that banks create money, and that trade depression rises from faults of the banking system in the discharge of that vital function.

But I do not want, on the present occasion, to dwell on these points of agreement. Rather I want to proceed without delay to examine the questions in regard to which he and I part company.

The foundation of Major Douglas's theory of social credit is his view that in the economic system, as it at present works, there is an inherent shortage of demand; that the total of incomes *necessarily* falls short of the total of goods to be sold, valued at remunerative prices.

That is so, he would say, because, in order to be remunerative, prices have to include certain other items in addition to the incomes generated. Since demand emanates only from incomes, these other items inevitably introduce a discrepancy. The excess of the value of goods over demand has to be distributed by some other form of purchasing power, that is to say, by credit.

The incomes or "payments made to individuals" comprised in costs include wages, salaries, and dividends. The other items, or "payments made to other organisations," include raw materials, repayment of bank loans and other non-personal costs.

With raw materials he groups intermediate products under the general heading semi-manufactures. The products of one manufacturer may be the materials of another. A tanner buys hides and sells leather; a boot-maker buys leather and sells boots, and a retailer buys boots and sells them to consumers. Hides and leather alike are comprised under the heading "semi-manufactures." The hides are paid for by the tanner; and their price is included in the price paid to him for the leather. The price of the leather, which thus includes the value of the hides, is then included in the price paid by the retailer to the manufacturer for the boots. "Where any payment in money appears twice or more in series production," Major Douglas explains, "then the ultimate price of the product is increased by that amount multiplied by the number of times of its appearance, without any equivalent increase of purchasing power." *Monopoly of Credit,* p. 30.

Here I find myself differing from Major Douglas. Apparently he would say that the price of boots includes the price of the leather twice, and the price of the hides three times. I should say, on the contrary, that it includes each *only once*.

The retailer receives the retail value of the boots from his customers and pays the wholesale value to the manufacturer, retaining the difference to cover the wages and salaries of his employees, his rent, and his own profit. The manufacturer receives the wholesale value of the boots from the retailer, and pays the value of the leather to the tanner, retaining the difference for profit, wages, and salaries. The tanner similarly retains the difference between the value of the leather and that of the hides and other materials he uses. Thus the whole of the difference between the original materials bought by the tanner and the boots sold by the retailer is accounted for by disbursements of wages, salaries, rent, interest, and profits, that is to say, payments to individuals by way of incomes.

But the hides in turn are bought from farmers, and the sums received for them form part of the incomes of the farmers, their workmen, and their landlords. There will be some outgoings for feeding stuffs, *etc*. but these will be paid to yet other producers. In fact, *all* the payments for semi-manufactures or materials are ultimately devoted towards providing the incomes of those engaged in producing or handling them.

Now it may be objected that this analysis would be perfectly valid if production did not take time, but that by the time the boots appear on the market the incomes derived by the farmers from the hides, by the tanners from the leather and by the manufacturers from the boots are ancient history. These people do not wait for the retail sales, but are paid at the moment of sale with money created by the banks, and then when the final sale to the consumers takes place, the money advanced by the banks has to be paid off. That part of the proceeds of sale is simply destroyed. For just as a bank advance creates money, so the repayment of an advance extinguishes money.

If we suppose the production and sale of the boots, in all the successive stages, to form an isolated operation, then at the beginning there will be an excess of purchasing power and no goods to buy, and at the end an excess of goods and a shortage of purchasing power. Castaways thrown on an uninhabited island, with no salvage to help them, would be faced with the same kind of mal-adjustment. At first they would have to subsist on the products of unassisted nature, and would receive no other reward for their labour. If they devoted their efforts to making the island productive, the time would come at which their preparatory work would bear fruit, and

thereafter they would receive the improved and increased output thereby made possible. If at last they were rescued, and left the island, the products then in course of production would find no buyers, and that part of the fruit of their early efforts and privations would be wasted.

But the economic activity of a civilized community is *continuous*. Accumulation of the essential capital equipment goes back to the immemorial past, and there is no question of winding it up and liquidating it. At any moment all the various stages of production and all the various forms of economic activity are in progress simultaneously. In order that the goods produced in any interval of time may be sold, what is needed is that the incomes occurring *in that same interval of time* should be sufficient to buy the goods at remunerative prices. Incomes arise out of production; they are paid to people for services rendered by themselves or their property towards the productive process, and these services are the source of the value of the goods produced. Now a part of the value of the goods produced during the interval will be derived from incomes that accrued before the beginning of the interval. But on the other hand a part of the value representing the incomes accruing during the interval is embodied in goods still unsold or unfinished at the end of the interval. The goods in process or in stock at any time constitute the working capital of the community, and, if there is no change in this working capital, there need be no inequality between the incomes occurring during the interval and the goods placed on sale.

So much for working capital. What of fixed capital? Industry starts at the beginning of the interval with a certain equipment of fixed capital, plant, tools, *etc*., and the cost of the goods produced with the assistance of this equipment must contain a contribution towards its maintenance and depreciation.

Major Douglas has laid special stress on depreciation as a constituent of cost which does not appear in the form of incomes. But here he is mistaken. Depreciation is a provision which the prudent manufacturer makes out of his gross profit against the time when his plant will have to be replaced, either because it is worn out, or because greater efficiency can be secured by plant of an improved type. If we imagine him to accumulate this provision during an interval of time in the form of a cash balance, and if we suppose that no replacements have actually to be carried out during the interval, there will be a shortage of demand. So much of the proceeds of sale will have failed to reappear in the form of income.

But if we view industry as a whole, we find once again that economic operations are *continuous*. In any interval of time there will always be some plant to be replaced in some concern, and the production of the new plant will generate incomes in just the same way as the production of new consumable goods.

Moreover, even if the replacements do not exactly keep pace with the accumulation of money to pay for them, the money accumulated need not be in the form of idle cash. So much as is not required is likely to be invested either in the businesses themselves or in marketable securities. That applies equally to the provision that the prudent mine-owner makes against the exhaustion of the mine. Here "replacement" is not, strictly speaking, possible at all. The minerals taken from the mine have gone forever. Indeed, insofar as the value of the minerals exceeds the cost of working, this may be regarded as a genuine case in which payments for materials are not applied to pay incomes. The mine-owner's property is being depleted.

But he is not likely to hold such part of his receipts as represents capital in the form of idle cash. Like the manufacturer disposing of a surplus on his depreciation account, he will invest it.

And more generally we may say that *anything* which counts as a capital asset in the hands of the seller is bought to be used in production, the seller is likely to invest the proceeds of sale. And though at one time he may withhold them or a part of them from investment, he may at another draw upon balances or borrow from a bank for investment. All money coming from such sources forms, along with savings out of income, the fund available through the investment market for capital outlay.

And that brings me to the question of new capital outlay, including, besides the establishment of new enterprises, any extensions or improvements which do more than replace the plant which is being discarded. Capital equipment enters into cost, in the form of maintenance, depreciation and interest, when it has been completed and is being used. To reckon it as an item of cost also when it is being constructed is to count it twice over.

Nevertheless, for Major Douglas's purposes it is necessary to consider how provision is originally made for it. Insofar as capital outlay is met out of income, that is to say, by means of saving, the demand available for consumable commodities is diminished by the amount saved. But then the money spent on the construction of new capital, no less than that spent on the production of consumable commodities, generates incomes. There is no failure of equilibrium here. Incomes are devoted partly to consumption and partly to investment, and they are derived partly from the production of consumable goods and partly from the production of capital goods. There may be some dislocations through a *change* in the proportion spent respectively on consumption and investment, but that is a different thing from a shortage of incomes as a whole.

But capital outlay is not invariably financed by savings out of income. Major Douglas even goes so far as to say, "It is doubtful whether more than an insignificant proportion of financing is done in this way, the greater part coming from new credits supplied by banks and insurance companies in return for debentures." That insurance companies play a large part in investment is undoubtedly true. But life insurance is no more than a channel for saving, adapted to the requirements of those who are dependent on incomes. The premiums received are savings, which are invested by the insurance

companies pending the maturity of the policies.

And I think Major Douglas has misconceived the functions of the banks. At any time, it is true, a considerable proportion of the assets of the banks represent fixed capital. They hold long-term investments (mainly government securities) on their own account, they make advances, both to stock jobbers and to other customers, to enable them to buy and hold stocks and shares, they make advances to manufacturers and traders for improvements and extensions of plant, and they make advances to private customers to buy houses. In all these ways they provide funds for purposes of investment. But their advances are for the most part repaid quickly. Even those made for improvements of plant or for buying houses are usually required to be repaid within two or three years. The actual amount of resources supplied by the banks for the purposes of investment over any interval of time is no more than the excess of new advances over repayments, and amount of savings.

But when Major Douglas refers to capital outlay financed by bank credit, I do not think he has in mind the use of a net increment of bank credit to supplement savings. His argument is rather that the manufacturer incurs capital outlay which has ultimately to be met out of profits, the bank advance being no more than a transitory expedient, and that the price of the product has to be raised to provide sufficient margin to cover the outlay, that is to say, to repay the bank advance. Even though new capital outlay is not strictly a part of the cost of production, nevertheless the latest improvements in plant available to an industry may be so essential that every producer in the industry is compelled to install them. They are necessary as ordinary replacements, and yet they may cost far more in capital outlay than the plant they are displacing. The situation is not unlike that of a trade in which the available stocks of the finished product are short, and the traders make good the shortage by charging a high price to the consumer. The high price which is imposed to slow down sales at the same time yields an extra profit to the traders and so supplies the resources to meet the cost of accumulating the additional stocks. The additional stocks are part of their capital, and the extra profit is part of their income, so that they may be regarded as providing capital by saving out of income. Yet this is, in a way, a fiction, for the need of the new capital has itself led to an increase of price and consequently of profit to pay for it.

In this way the cost of new capital may occasionally appear as an item in selling price. But, even if it does, no deficiency of demand is caused. The production of the new capital itself, whether it be plant or stocks of commodities, generates incomes equal to its costs. Production, for the time being, exceeds consumption, and the difference is appropriated by the traders in virtue of their extra profit. That extra profit is a clear addition to the aggregate of incomes.

Incomes are the source of demand. But it cannot be assumed that the amount of demand in any interval of time must be equal to the aggregate of incomes. The expenditure of the individual is not exactly equal to his income; he may leave part of his receipts unspent in his cash balance, or he may draw on his cash balance (or overdraw) for expenditure in excess of his receipts.

For the total expenditure out of all incomes, including expenditure on investment or the purchase of securities, I use the expression "consumers' outlay." When people in their capacity as consumers, draw upon their balances, this is expenditure out of past income, and when they overdraw I regard it as an anticipation of future income. In either case I include it in consumers' outlay. On the other hand, when advances or overdrafts are granted to a *trader* to meet his expenditure on buying or producing commodities, that is not in anticipation of expenditure *out of income* and is not part of the consumers' outlay.

I should explain that I use the term "trader" in a wide sense, to include anyone who incurs costs on producing or buying goods or services with a view to sale. A trader may be engaged on production or transport or on dealing in goods or securities or on any other economic activity. His characteristic is that he *incurs costs* and it follows that his income takes the form of *profit*, an excess of the proceeds of sale over costs.

The only forms of economic activity that are not in the hands of traders are those in which no costs are incurred, that is to say, those in which the producer renders a service directly to the consumer, in return for wage, salary, or fee. The services rendered by a servant in return for his or her wages are an example. The whole of what she receives is income, and her income and her employer's outlay on her services are equal and simultaneous. The trader on the other hand, is an intermediary, receiving money from the sale of this product, and paying money to other traders and to those whom he employs or whose capital he uses. He also draws out the profit that constitutes his own income. His receipts and disbursements are not necessarily equal to one another.

If we consider *all* the traders in the community as a single group, we find that the group receives the proceeds of goods, services, and security sold to consumers, and pays the incomes of all those who participate, by their services or by the use of their property, in the work of production and other economic activity carried on by the traders. The profits which constitute the incomes of the traders are included on the side of the payments, while the traders, when they spend these incomes, are reckoned among the consumers.

Payments by one trader to another all cancel out, and do not figure either in the receipts or in the payments *of the group* at all.

Foreign trade introduces a complication, but does not materially modify the general principle. Exports, visible and invisible, like all other forms of economic activity, generate incomes. Some traders receive payments from abroad, for exports, while others make payments abroad for imports, and the result is to provide goods, services,

and securities to meet the demand corresponding to the incomes generated by the export business.

Now the payments made by the group of traders being in respect of services rendered toward production and other economic activities, will be increased or diminished according as the traders accelerate or retard production. If they accelerate production, they must pay out more in respect of the greater productive activity. There will result an excess of the traders' disbursements over their receipts, an excess which may be described as a "release of cash". The cash released goes to pay additional incomes, and then reappears as additional demand. The additional demand evokes a still greater productive activity and a further release of cash.

When the traders retard production, there occurs an excess of their receipts over the disbursements or an absorption of cash. There is a shrinkage of incomes, of demand, of sales, and then a still greater shrinkage of production.

In the case of a release of cash the expansion of demand cannot be met indefinitely by an increase of production. As production approaches capacity, the effect will be felt more and more in a rise of prices. This is a familiar phenomenon of inflation.

In the contrary case of an absorption of cash the contraction of demand is felt partly in the reduction of prices, but, insofar as prices resist reduction, it is felt in the decline of output and consequent unemployment. This is deflation.

The release and absorption of cash play an important part in the regulation of credit. What is commonly called an expansion of credit is really a device for inducing a release of cash, while a contraction of credit is a device for inducing an absorption of cash. The release of cash may be effected either with money drawn from existing balances or with money lent by the banks. Similarly an absorption of cash may mean either the accumulation of idle money or the repayment of bank advances. The majority of traders avoid holding idle balances, and borrow just so much from their bankers as their varying needs for working capital require from time to time.

These traders cannot increase their activity unless they can borrow. The bankers, by increasing their charges, and possibly refusing loans can deter the traders from releasing cash and practically prevent an increase in activity. By reducing their charges and showing themselves willing to lend, they can induce an increase of activities. In the latter case, they may start a vicious circle of inflation involving a cumulative rise in prices; in the former a vicious circle of deflation involving a cumulative fall of prices and an ever-growing burden of unemployment.

An absorption of cash may be regarded as a step towards that liquidation of industry which was illustrated from the rescue of the castaways. It means that traders are seeking to sell more than they buy or produce. The various causes which may occasion a deficiency of purchasing power, such as the accumulation of savings or depreciation funds in cash instead of investments, or substitution of cash for goods in working capital, are really particular cases of the absorption of cash. The real significance of the power of the banks to create or extinguish money is that it enables them to bring about the release or absorption of cash. If the net result of all the different causes at work is an absorption of cash, then there is deficiency of purchasing power; if the net result is a release of cash, then there is an excess of purchasing power.

This account of the relation of the credit system to productive activity differs from that of Major Douglas in that it reaches the conclusion that an excessive demand is just as likely to occur as a deficiency. According to Major Douglas's theory there is a *persistent and inherent* tendency to a deficiency of demand. He has many hard things to say of bankers, but, if his theory is right, the deficiency of demand is not due to any fault of theirs; it is inherent in the system they are working. They stave off the tendency from time to time by an expansion of credit, but, he would say, it must inevitably recur unless the credit system itself is radically reformed.

How would he reform it? I understand him to recommend the provision of credit free of the obligation of repayment that attaches to credit created by a bank. The proposal, in the tentative form in which he discussed it with the Macmillan Committee, provided for crediting the purchasers of goods at retail with a proportion, say, one fourth, of the price charged by the retailer. Thus anyone who bought a car for £100 would receive a credit for £25, which he could pay into his banking account. The credit would be payable by the state in paper money.

If the money spent on goods sold at retail amounts to £150,000,000 a month, then consumers would be able to buy one third more for the same money. If they spent as much as before, sales would be increased in that proportion and traders would receive £50,000,000 a month more than before. Goods to that additional value having been sold from stocks, the stocks must be replenished, and orders would be given to producers equivalent to one third increase in output.

Suppose, as is probable enough in the present circumstances, that output can be increased by one third without overstraining capacity. The result will be an increase in the consumer's income by one third. More people will be employed, and profits will be higher. We need not suppose that all the additional incomes will be immediately spent or invested. If we assume that £20,000,000 a month is added to consumers' balances, then the consumers' outlay will be increased to £180,000,000 a month. This will then be reinforced by consumers' credits to the amount of one third or £60,000,000', raising the total sales to £240,000,000 a month.

Where is this process to stop? When industry is employed up to capacity, the additional demand can no

longer be supplied by additional output, and it will begin to force up prices.

It may be contended that under modern conditions productive capacity is so great and so elastic that it would never in practice be reached. But that is true of only a limited class of products, those to which mass production is applicable. When demand expands, one industry after another will reach capacity. The existence of a group of mass production industries, which can expand output almost indefinitely without any increase of cost price, will not prevent the rise of prices in all the others. And demand for the products of the former group will reach satiety at a time when it is still pushing up prices in the latter.

In fact, the proposed consumers' credits are nonetheless inflationary because they are applied to the reduction of prices. Inflation consists in an undue expansion of purchasing power, that is to say, of *income*. The rise of prices is a consequence, which may be alleviated by subsidies like the bread subsidy of 1919 period but that does not rectify the underlying disequilibrium.

This is, of course, no more than to appeal over again to the conclusion already arrived at, that there is not, in fact, the chronic deficiency of purchasing power in which Major Douglas believes. But we can now see it from a different point of view. If the new money created through consumers' credits and paid to traders does not return in the form of additional incomes, what happens to it? It must be retained by the traders. It cannot be extinguished, because *ex hypothesi* it is not issued by way of loan, but by way of free credit.

But why should the traders hold any more idle money than they did before? Perhaps Major Douglas would say that the money must be applied for payment of those constituents of cost which do not generate incomes. If we grant, for the sake of argument, that such constituents of cost exist, the money comes into the hands of those who provide them. Will they hold it idle? There is no new fact to affect their behavior. They are paid for what they sell, but under the existing credit system they will likewise have been paid.

Thus, even if Major Douglas were right, there would be nothing to impede the circulation of the new money created, and therefore nothing to prevent it from generating new incomes.

Now a time like the present there is everything to be said for a device for generating new incomes and new purchasing power. The world is undoubtedly suffering from a deficiency of purchasing power. Major Douglas's plan may rank with many others as one for inducing inflation. But, so regarded, it is no more than a temporary measure. When industry has become once again remunerative and fully employed the consumers' credits must stop. Otherwise there will be an unlimited expansion of incomes and rising prices. When Major Douglas appeared before the Macmillan Committee, Professor Gregory described his plan as one "to give all the population plenty of money," and he assented. Professor Gregory then asked "up to what limit?" and Major Douglas replied: "Up to the combined limit imposed by the capacity of the industrial system to deliver goods and services conditioned by the willingness of the people to work for the time required."

This seems to imply a limit imposed by the capacity of the plant and the supply of labor, and it might be inferred that the deficiency of demand on which measure Douglas lays so much emphasis is only intermittent, and is remediable, and that, once the consumers' credits have attained their object of making industry remunerative and fully employed, they can be dropped. But I do not think that would be reconcilable with what Major Douglas has said and written elsewhere.

Closely associated with Major Douglas's theory of the deficiency of purchasing power is his view that credit is something belonging to the community. That is the ground on which he defends the grant of free credits instead of repayable bank advances. Bank credit, it is said, is founded on real credit, that is to say, on the capacity to produce and deliver goods and services as, when, and where required, and that capacity has been created by the community. Individual effort has only been fruitful in virtue of its environment.

This argument proves too much and too little – too much, because it touches private control of capital or profit just as much as private control of credit; too little because, however much the community may have contributed to the basis of credit, the question of control is one of practical expediency rather than of abstract right.

The question of expediency is one which I do not propose to examine in detail. If we do not accept Major Douglas's argument that the grant of free credit is essential to rectify chronic deficiency of demand, the question of the nationalization of banking falls to be discussed on familiar lines.

One other matter I must refer to. Major Douglas advocates the creation of credits in favor of *consumers*, credits which he compares to dividends paid by the community in respect of its accumulated wealth or productive capacity. Consumers' credits are by no means peculiar to him, and they are, I think, generally advocated as calculated to augment demand more directly and more immediately than credits granted to producers. In reality there is no such difference. When a producer borrows from a bank, it is never with a view to holding the money borrowed idle. He applies it without delay to paying the costs of production, and, and in so doing, he transforms it into income in the hands of consumers. Traders borrow, it is true, to pay the cost of buying goods already in existence from the stocks of other traders. But in general, when they do so the sellers pay off credits as fast as the buyers obtain them, and there is no net creation of credit at all.

Moreover, when consumers receive credits and buy goods from traders, it is always *possible* that the goods may be supplied from stock and may not be replaced.

Nevertheless, when, as at present, business is so stagnant and pessimism so predominant that it is difficult to induce traders to borrow at all, there is something to be said for taking exceptional measures to place new purchasing power in the hands of consumers. Whether any such measures can be devised which are really practicable and are not open to objections that outweigh their advantages, I need not stop to argue. It is enough to say that emergency measures of this kind, which are not even appropriate to all trade depressions, but only to those of exceptional intensity, are far removed from the plan recommended by Major Douglas.

(End of Mr. Hawtrey's opening Statement.)

MAJOR DOUGLAS'S REPLY.

In replying to the able attack by Mr. Hawtrey upon certain aspects of my views, I am conscious of being in possession of certain advantages and subject to certain handicaps. Amongst the advantages I think I may fairly rank the fact that the theories which I have put forward do, in fact, explain the present position, which has become to be known as the "economic paradox" – a world which is overflowing with real wealth and yet has large numbers of its population upon the verge of poverty. Not only is this the case, but the actual concrete measures, more especially in regard to taxation, which orthodox financiers advocate through their political representatives, are reducing still more of the population to a condition of material poverty and economic impotency. The ordinary citizen cannot buy, and the manufacturer cannot produce, not for physical reasons, but for reasons which, by common consent, are purely financial.

Further than that, the remedies which are put forward from official and orthodox sources seem to me to be a complete admission of my case. Both in this country and in America the spending on public works of large sums of money derived from loans created by banks is considered to be the only feasible method of meeting the situation to which I have just referred. Looked at from the financial point of view, this simply means the distribution of considerable amounts of purchasing power through the agency of wages and salaries, in respect of the production of things which are not expected to be bought by the public, at any rate in the ordinary sense of the word, and the purchasing power so distributed bridges that deficit and the amount necessary to purchase the goods which are produced through more ordinary channels of manufacture. This proposal seems to me to admit at once that the amount of purchasing power distributed through the ordinary processes of manufacture is not sufficient to buy the goods for sale, and that this purchasing power must be augmented from other sources which do not put fresh goods for sale upon the market. I may say at once that my objection to this proposal is that it can only be implemented by the creation of still further enormous debts to the banks, thus riveting the control of the banking system still more firmly on the shoulders of a population already suffering severely from this cause.

The main handicap under which I suffer in replying to Mr. Hawtrey is that the difficulties of appreciating the true facts of the present situation are not so much intellectual as psychological. I am here tonight not so much in the role of an expositor as that of a de-mesmeriser and exorcist. The existing financial system is the living embodiment of the kind of faith which the schoolboy described as "believing what ain't so." It is, in fact, Black Magic. We use in everyday conversation all kinds of little phrases skillfully designed to suggest illusive interpretations of what actually goes on in the financial system, such as, for instance, that Mr. Jones is making money very fast. If Mr. Jones is a banker this may be literally true, but if Mr. Jones is anything else but a banker either it cannot possibly be true, or else if it does happen to be true, Mr. Jones will very rapidly find himself in goal as a counterfeiter. When we say that Mr. Brown is worth £100,000, or Mr. Robinson has been left £200,000 we suggest that at any moment either of these gentlemen is in a position to draw a check for approximately those sums. Once again, without the intervention of the financial system itself, and notably the banker, both of these statements are probably incorrect. What we mean is that it is possible that someone will give these sums for the property left to Mr. Robinson, or in the possession of Mr. Brown. It is quite possible that either Mr. Brown or Mr. Robinson may be very seriously concerned as to how he is going to get ten pounds to pay his next week's hotel bill. All these misdescriptions intensify the confusion in the mind of the average individual between what we call "price values" and purchasing power, and it is of primary importance to keep the difference between actual purchasing power and price values very clearly in your minds.

In order to emphasize his difference I should like you, first of all, to consider this diagram, *Figure* 1. At the top we see the bank, the money manufacturer, the only institution which, as such, actually manufactures money and destroys it. Mr. Hawtrey and I are in complete agreement about this, and in fact, I refer to Mr. Hawtrey's lucid exposition of the technique of the process when I don't want to explain it myself. On the left we have the goods manufacturer, whose function in the financial system, as apart from the physical production system, is that of a distributor of purchasing power, created by the banks, and an allocator of costs which include, but do not wholly consist, of money distributed by him. At the bottom we have the citizen in his dual capacity of earner and spender, and on the right we have the retailer who distributes goods but collects money, and returns it to the banks, whence it starts out upon a fresh cycle. I have shown the manufacturer and the retailer connected by a line to indicate that they are under a single proprietorship, so that the money collected by the retailer can be paid directly into the bank instead of going through the manufacturer's book again.

Now if we assume the deposits in banks to be constant, *i.e.,* no inflation or deflation, and that the economic process is a continuous flow, a point rightly insisted upon by Mr. Hawtrey, three things must be happening. Firstly, the manufacturer must be distributing money to the citizen

at a constant rate, secondly, the citizen must be spending it at a constant rate, which is equal to that at which the manufacturer is distributing it, and thirdly, the retailer must be paying it back to the bank at a constant rate equal to the rate involved in the two preceding transactions. Please note particularly that this is absolutely all that is required. It is not necessary to this process that all the goods which the manufacturer manufactures shall pass over either to the retailer or to the citizen. If the manufacturer makes 100 units of goods for 100 pounds, and the retailer sells 50 units of goods for 100 pounds, the conditions of the system as shown are satisfied. Before proceeding further, I should like to emphasize that the satisfaction of the kind of condition described in the diagram is the basis of the existing financial system. It may be described either as the principle of the balanced budget, that is to say, that all outgoing shall be balanced by incoming, or it may alternatively be described as the postulate of the manufacturer, that all his costs, whether distributed or allocated, shall be recovered in prices. These two things are the same in intent.

Let us now return to the manufacturer. He has no power of making money in the literal sense, but he has the prerogative of allocating costs. At this point please note that his allocation of cost can fall into three main headings at any moment. Firstly, the money or purchasing power which he is actually distributing to the citizen in his capacity as an earner. Secondly, an additional figure which represents his idea of his own remuneration, and what he calls "profit," and thirdly, the sum which represents the claim for debt, including semi-manufactures. I do not wish to go at the moment into the exact division of the allocated costs into profit and recovery of debt, or the justification for these divisions. I merely wish to establish that every manufacturer can and does both distribute costs in the form of wages and salaries and allocate costs which are not distributed as wages and salaries. These latter costs can only be distributed *after he has sold all his goods*, and collected both the distributed and allocated costs, and he does not *distribute* enough *before* they are sold to buy them. There is only one additional distribution to the public – dividends. He would obviously have to distribute simultaneously through the agency of dividends, *etc*., the average amount of the allocated charges, and apart from semi-manufactures, this average in Great Britain is probably between 125 and 150 per cent. and in the United States between to 250 and 300 per cent. It is only necessary to realize that the equilibrium to which Mr. Hawtrey refers would require the steady distribution by every single producing concern, probably not excluding farming, of dividends at the rate of 125 per cent. on turnover, or probably 500 per cent. per annum, to realize how far his contention is from representing the case. It is probable that the *average* dividend on industry does not exceed 2 per cent. It may not be out of place to remark that the increase in overhead charges in relation to direct charges is a direct measure of industrial progress. In *Figure* 1 the distributed costs are shown as A and the allocated costs are shown as B. When a product is transferred to the retailer its price is A plus B, and as you will see from the diagram, the only distributed purchasing power is that represented by A, and since A will not purchase A + B, a portion of the product is obviously unsaleable.

In this form the financial system is too flagrantly unworkable. We know it is worked after a fashion, and we have to seek an explanation as to what would make it work. I do not think that this is at all difficult. If you turn to the diagram *Figure* 2, you will see that I have added another factory working on exactly the same principle. The wages and salaries distributed by this second factory also go to the citizen in his capacity as earner and, of course, they increase his purchasing power. More money flows through the hands of the retailer, and more goods are sold, simply to the extent of the A payments made by No. 2 factory. Part of this money goes, as before, to provide wages and salaries for a new cycle of production, and part of it to cancel the allocated cost of factory No. 1, and thence back again to the bank. You will notice, of course, that none of the products of factory No. 2 have been bought. The wages and salaries distributed by factory No. 2 have merely gone to purchase the previously unsaleable products of factory No. 1. The product of factory No. 2 must therefore be something which is not bought by the citizen, it must be either exported and paid for outside the country, or it must be paid for by adding still another factory onto the chain and charging its expense to capital, thus creating additional debt. This is the explanation of the facts with which we are all familiar as a fact, that the existing financial system works comparatively well in a period of continuous expansion or where the product is continuously destroyed, as during a war. But that each of these boom periods creates a mass of debt which makes a still more serious slump inevitable is beyond dispute.

There is a great deal more to be said on this subject, and I have elaborated it considerably in my reply to Professor Copland, of Melbourne, and Professor Robbins, of the University of London. The whole of Mr. Hawtrey's attack upon my views rests, I think, on a denial of the general proposition, which I do most distinctly make, that there is an inherent defect in the financial system as it is worked at the present time, which persistently tends toward a deficiency of effective demand as compared with the total prices of the goods produced. When Mr. Hawtrey says that it is possible to have an excess of demand, I think what he means is that it is *possible* to have an excess of demand for *consumable* goods, in which I agree with him. It *is* possible to have this excessive demand by making a large quantity of goods which are not intended to be sold to the public and using the purchasing power distributed in making these goods to buy consumable goods. That happens in wartime. I do not regard it as being a sane system that before you can buy a cabbage it is absolutely necessary to make a machine gun, whether or not you want a machine gun. I should further claim that, for reasons which will be quite apparent to anyone who will examine the diagram to which I referred, and the arguments which accompany them, that the inherent defect is a cumulative defect, and that every temporary rectification along the lines which, apparently, are the only lines to which our financial authorities would agree,

makes the subsequent crisis both more inevitable, more profound, and more certain to come at an even shorter interval than that of the preceding crisis.

Now it is perfectly true that the soundness of the remedy which I propose rests on the fact or otherwise of this deficiency. If there is no shortage of purchasing power as compared with prices, it is quite certain that we do not want or require to provide more purchasing power, and conversely if there is a shortage of purchasing powers compared with prices we *do* want to provide more purchasing power. My contention is that with the normal production of capital equipment which is required *for its own sake,* as distinct from a mere device to distribute purchasing power, the amount of purchasing power available to buy consumer goods is far inferior to the price attached to those consumer goods by the normal process of manufacture. As one might say, the industrial process provides 100 penny buns but only fifty pennies with which to buy them. The remedy is clear, and that is to sell the 100 buns for fifty pennies, that is to say one half-penny each instead of one penny, and to make up the capital charges at the point at which they are allocated by issuing to the allocator of capital charges the other 50 pennies. This is, of course, a very crude description of the process, which has been much elaborated elsewhere, but in fact that is what it comes to. To say that this is inflation, is to my mind completely to misconceive the meaning of the word "inflation."

Turning now to Mr. Hawtrey's specific comments, he says (column 1, page 268) [page 2, column 2 above] that apparently I say that the price of the boots includes the price of the leather twice and the price of the hide three times. This is far from my meaning. What I do say is that by the passage of one unit of purchasing power through the costing system repeatedly, several units of price values can be created without creating fresh purchasing power. The full explanation of this process is given in my evidence before the Macmillan Committee, sections 4498 – 4501. As this is vital to an understanding of the situation, I will repeat these replies here.

"Suppose first that I have £1000, and I pay that £1000 away for the purpose of having a house built. We will imagine that the whole of the £1000 goes in nothing but wages, which does not in any way affect the argument, and we will also suppose that by doing work on something else the workmen could live and save all that they earned by house building. Suppose now that the workmen who built the house, who collectively would have my £1000, decided to buy the house, and I agree to sell the house for £1000. Notice that no question of profit rises. The workmen now have the house, and I have my £1000 back again. In other words, the workmen have obtained the house merely by working for it. But these workmen would express it by saying that they had paid £1000 for the house. I am now out of the transaction altogether, and we will suppose I and my money removed to another planet, or we can suppose that I tore up the money which was returned to me (which is the equivalent of the repayment of a bank loan). Suppose now that the workmen decide to use the house to make and sell shoes. If they carry on the business on orthodox business lines the cost of the shoes will consist of at least three items: (i) wages, (ii) raw materials, (iii) rent of factory, *i.e.,* house. We will suppose for the moment that they get their raw materials for nothing, and that the "Rent" of the house is nothing but an appropriation of money of such amount that when the house eventually falls down they will have got back their £1000. It is technically called "depreciation." Since the public gets the shoes, clearly they ought to pay "depreciation." Notice, therefore, that neither interest, *i.e.,* "usury" nor dividends, nor land monopoly are imported into the question. But the simple and vital fact remains that the wages paid during the production of the shoes are less than the price of the shoes by an amount large or small, which is added to the cost of the shoes before the shoes are sold, representing, at least, "depreciation." This amount, which is added to the cost of the shoes, represents overhead charges in their simplest form, and in many modern productions overhead charges are between 200 and 300 per cent. of the direct cost of the product. It is *not* profit. Suppose in the instance given above that having sold my house to the workmen I had used the £1000 to build another house, with which I had repeated the identical process. Once again I should have got the same £1000 back again; once again the workmen would have got into possession of the house, merely by working for it; once again they would have created an overhead charge on anything they manufactured in the house of £1000; and although there would only be £1000 of money in existence in respect of the production of the houses there would be £2000 of prices created in respect of the two houses which would have to be recovered in the price of something sold to the public, and the amount of money and purchasing power would be exactly what it was before the houses were built.

In col. 1, p. 269, [page 3, column 1 above] beginning at the words: "The accumulation of the essential capital equipment" and ending at "the goods placed on sale," there seems to me to be a confusion between price values and purchasing power, the confusion to which I referred at the beginning of my reply. For instance, Mr. Hawtrey says that incomes arise out of production. They do not. *Price values* arise out of production, incomes arise out of purchasing power created by the banks. Mr. Hawtrey objects to certain of my comments on depreciation, and I think he confuses depreciation with maintenance. Maintenance, if properly carried out, means that there is no depreciation, which is the situation covered by the building of the second house in the illustration. There may be obsolescence, to which he refers by implication when he says that it may have to be replaced by plant of greater efficiency. This means *appreciation*, and the difference between net obsolescence and appreciation is net increase in capital value. I think much the same confusion is evident in Mr. Hawtrey's remarks that when anything is brought into use in production, the seller is likely to invest the proceeds of the sale. There is nothing in this which increases the amount of purchasing power available. He then says that the capital equipment enters into cost in the form of maintenance, depreciation and interest when it has been completed and is being used. To reckon it as an item of cost also when it has been constructed is to count it

twice over. It seems to me to be obvious that if the purchasing power distributed during its construction was used in buying consumable goods, then the purchaser of consumer goods paid for the capital equipment at the time that it was constructed, as in the case shown in *Figure* 2.

In column 1, page 271 [page 4, column 1 above], Mr. Hawtrey seems to recognize this, but says "that if it does no deficiency of demand is caused." "The production of new capital itself, whether it be plant or stocks of commodities, generates incomes equal to its cost." This is, of course, not the case, since the allocation of costs in excess of sums distributed as purchasing power takes place in the factories in which the capital goods are produced in exactly the same way as in any other factory. In column 1, [page 4, column 2 above], Mr. Hawtrey says that "Foreign trade introduces a complication, but does not materially modify the general principle." I should disagree with Mr. Hawtrey here. The exports of actual goods takes those goods out of the home market in return for paper tickets, in the form of bills of exchange or otherwise, which augment the purchasing power in the country to the same extent that actual wealth has been taken out of the country. In this way export counts twice in redressing the balance between prices of goods for sale, and purchasing power. That is why export trade is so important to the financial system as it is at the present time. But the physical meaning of the transaction is that goods are given away for nothing. We are all familiar with the idea that exports are paid for by imports, but if that were true, it is an extraordinary thing that we put tariffs on to keep imports out. In column 1 of page 273 [page 4, column 1 above] Mr. Hawtrey makes a remark which I regard as of primary importance. He says, "If his theory (that is, mine) is right, the deficiency of demand is not due to any fault of bankers but is inherent in the system they are working." I absolutely agree. It is the inherent defect in the system which renders the monopoly of credit, that is to say, the power of creating fresh purchasing power, of such tremendous importance, and my chief complaint against the bankers, such as it is, is that in showing such determination both to maintain the system and to stifle public criticism of it, they assume responsibility for an defective system. The final criticisms of Mr. Hawtrey's paper are directed to the more abstract questions of the true ownership of public credit, and administration of industry. These subjects are of quite fundamental importance, but to deal with them adequately seems to me to be outside the possible scope of the present debate. I can assure Mr. Hawtrey that there is nothing that would give me greater pleasure than to debate these subjects with him at considerable length, and if at any time he finds that his engagements permit him to do this, I trust that he will allow me that opportunity.

(End of Major Douglas's opening Reply.)

MR. HAWTREY'S CLOSING STATEMENT

[*Here followed the interval for discussion, at the end of which the Chairman called upon Mr. Hawtrey.*]

MR. HAWTREY: Mr. Chairman, Ladies, and Gentlemen, I am very grateful in the first place to Major Douglas and also to the various speakers for the very interesting and thorough commentary on my opening remarks.

It would perhaps be almost too much to try to answer everything, even to answer everything in Major Douglas's excellent and interesting paper, but I will deal with what I regard as the most important points.

Major Douglas opened by referring to the economic paradox, poverty in the midst of plenty. That is a point on which I think he and I are at one in that we should both attribute the paradox to a shortage of purchasing power. The difference between us, as I pointed out in my opening paper, is that whereas he regards the deficiency in purchasing power as inherent and persistent, I regard it as intermittent. I believe it alternates with an excess of purchasing power, and that if it is not quite correct to say that the excess or deficiency is in each case wholly caused by the banking system, I would, at any rate, say that it is within the power of the banking system to correct either excess or deficiency in time, and therefore to avoid a recurrence of trade depression, not only of trade depression such as we are experiencing at the present time, but of the milder trade depressions, which were a familiar feature in the nineteenth century economic system, and earlier still.

Now you will remember that in my paper I argued that Major Douglas was mistaken in finding items of cost which do not represent incomes. I dealt separately with the question of raw materials and semi-manufactures on the one hand, and with various capital items, such as maintenance, depreciation and extensions on the other hand.

With regard to raw materials and semi-manufactures, Major Douglas says that I was mistaken in supposing that he meant – to take the example I quoted – that hides appear three times and leather twice in the cost price of boots to the consumer. He says that he does not mean that they appear more than once in the price to the consumer, but that they occur in the price values, which includes, I think, the price charged by one trader to another.

MAJOR DOUGLAS: The fact of one unit of purchasing power recurring a number of times through the costing system produces an additional price value each time it passes through, so that you have an additional price value.

MR. HAWTREY: I am still quite in the dark as to whether the value of the hides appears three times and the value of the leather twice in the price at which the boots are sold to the consumer. I cannot see any other interpretation possible of what Major Douglas says.

MAJOR DOUGLAS: I should like to clear that up. There is a very real difference. I can very easily appreciate the difficulty of appreciating the difference.

I do not say that the price of the hides appears two or

three times in a pair of boots. What I do say is that you can make three or four pairs of boots by the existing process without distributing more purchasing power than is necessary to buy one pair of boots. That is not the same thing as saying the price of the hides appears three or four times in one pair of boots. I say you can produce three or four pairs of boots, having only the purchasing power available to buy one pair of boots.

MR. HAWTREY: With all respect I venture to say it is exactly the same thing whether the price of the hides appears three times over in the price of four pairs of boots or in the price of one pair of boots. If it is a fact that the boots have to be sold at such a price that four pairs of boots include the recurrent value of the hides – (Interruption).

THE CHAIRMAN: Ladies and gentlemen, it will be of great assistance to the clarifying of the difficult points on which we are engaged if you will give your quiet attention to what is happening on the platform. It is quite impossible to carry on a discussion on the level which we are attempting here if you are not going to give your serious and quiet attention. I must ask you to exercise considerable restraint. I would prefer you to keep perfectly silent while this discussion is taking place and imagine you are listening to a broadcast discussion. Will you please allow the discussion to go on without any interruption either by laughter or by comment so far as you possibly can.

MAJOR DOUGLAS: The point, the very subtle point, I am trying to make is this. The whole of the objection to the present state of affairs as I see it is that it inevitably makes more things than can be bought. That is the point I wish to make; that by a process by which a given amount of purchasing power which *ex-hypothesi* is controlled up at the Bank, so far as the normal system is concerned, there is a constant circulation of purchasing power starting with the bank, going through the producer, through the retailer, and back again. Now for the sake of this argument, and this is, of course the normal way of looking at these things, the point is that the amount of goods which can be bought at, let us say, a given price level is solely conditioned by the volume of this stream (diag. 1), or if you like to put it more correctly, the cross-sectional area of the stream, and that cross-sectional area, if you imagine it to be kept constant, will automatically require the production of a surplus of unsold goods. That is the point.

MR. HAWTREY: I am very grateful to Major Douglas for his further explanation, but I must confess that it seems to me to be simply begging the question, because my argument was that every item that does appear in the cost of the goods sold to the consumer can be identified with incomes paid out. You will remember that for the moment, I am now discussing Major Douglas's point with regard to raw materials and semi-manufactures. So far as those classes of goods are concerned there can be no discrepancy caused between the selling value of the goods produced and the incomes that arise in the course of their production unless some such phenomenon as a duplication of the value of the materials in the price of a final product is involved. If there is no duplication and if each item appears once and once only, the hides appear once only and the cost of the operation supplied by the tanner to the hides appears once only, and the manufacturing operations applied by the bootmaker to the leather appear once only, and so on, if this is the case then there is no discrepancy arising from raw materials and semi-manufactures. Of course Major Douglas's illustration and his diagram are based on the assumption that there was such a discrepancy, but he has completely failed to put his finger on the source of it.

Well, now, there remains the other side of my argument –- that relating to the maintenance, depreciation, renewal and extension of fixed capital. There are a number of points that Major Douglas made in relation to that.

In the first place he said that my argument was based on a confusion between maintenance and depreciation, and he went on to explain that if there is adequate maintenance no replacement is necessary. I do not think that is correct, because, however perfect maintenance of plant is, there would obviously be certain types of plant that would not last forever. A time comes at which the wear of parts or some other form of deterioration is such that replacement costs less than continued maintenance. Depreciation, in the sense in which I used it, is a very real item of cost, and it takes a concrete form in the actual construction of the new plant to replace that which has to be scrapped. Major Douglas recognizes that obsolescence is also to be allowed for. He spoke of obsolescence as if it necessarily led to the substitution of more costly for less costly plant. That is not necessarily so. I did refer in my paper to the contingency where it is so, but you may quite possibly scrap a more costly plant in favor of a less costly, which has been invented since the old plant was first installed. I think that perhaps the best way in which I can reply to Major Douglas's arguments in regard to depreciation would be by reference to his own example of the house. He supposes that a house is built at a cost of £1000 and that it becomes the property of the workmen who actually constructed it. And he supposes that it is building used for industrial purposes and that the depreciation of the house is charged in the price at which the goods produced are sold to the consumer. But he left out the replacement of the house altogether. He supposes that during the manufacturing process the depreciation money is accumulated in the form of money and not spent. Now that is a case I did refer to in my paper. I pointed out that when depreciation is accumulated in the form of money, of final cash balances, that that causes a deficiency of purchasing power. Likewise I pointed out that when savings are accumulated in the form of idle money there is a deficiency. There is a deficiency when goods are sold out of working capital, and the proceeds are held idle. All these are contingencies which would *by themselves* produce a deficiency of purchasing power. But I pointed out that the question of whether on balance there is a deficiency of purchasing power depends on all such items pooled together. You cannot say that a particular individual who is accumulating idle cash is causing a deficiency of purchasing power when his neighbor is releasing cash, so that the demand emanating from the two

together is exactly equal to their incomes. As I explained before, I regard the functions of the bankers in regulating credit as being fundamentally directed to inducing what I call the release or absorption of cash in the first case causing an excess and in the latter a deficiency of purchasing power. Major Douglas also referred to my argument that, when money saved out of income is applied to the construction of new fixed capital, incomes are generated to the construction of the capital goods, and no disequilibrium is caused. Of course as I pointed out, if people save and hold the money idle that, so far as it goes, tends to cause a deficiency of purchasing power; but if instead of holding the money idle they spend it on the construction of new capital goods to which they become the owners – they may be direct owners or they may be shareholders or bondholders with rights of participating in the capital enterprise – when they spend their money in that way there is no loss of equilibrium because their purchase of capital goods is *demand* in exactly the same degree and in the same sense as their purchase of consumable goods would be. When you buy shares in a new capital enterprise you are passing on your money to the producers of capital goods represented by those shares, just as when you are buying a hat you are passing on your money to the producer of the hat, so that insofar as that money that is saved is invested in new capital goods there is no deficiency of purchasing power caused.

Major Douglas suggested that when people are engaged in constructing capital goods and use incomes they derive from that process to buy consumption goods there is in some sense a sterilization of purchasing power, but there he is, I think, completely mistaken. This process by which people exchange their services through the medium of their incomes for capital goods is exactly analogous to that exchange of their services through the medium of their incomes for consumption goods. Therefore you will see that the different types of outlay that are connected with fixed capital all generate incomes in just the same way as the outlay on consumption goods. There is in fact no point at which there is a shortage.

Now, in what I have just been saying I have, of course, made no reference to the time element, but that in no way invalidates what I have been saying because, as I explained in my paper the only condition for equilibrium between demand and supply is that incomes available to be spent within an interval of time should be covered to the goods produced for sale *within the same interval*. It does not matter how far those incomes are connected with the production of those particular goods, or with the goods which are coming in on sale later, or how far the incomes that are occurring during the interval are applied to the purchase of goods produced before. Provided that within the interval you get a balance between goods and incomes, there is no excess or deficiency of purchasing power. An excess or deficiency may be caused by the release of cash or the absorption of cash, and the banking system may be responsible for that release of cash or absorption of cash. I may remind you that in my paper I use the expression "release of cash" for the case where the payments out by traders to the people whose incomes they pay exceed their receipts. On the other hand the absorption of cash means an excess of the traders' receipts over their other disbursements. That excess of receipts over disbursements means that we are laying up the proceeds of sale of goods, and preventing all those proceeds of sale from becoming incomes, and there you do get a deficiency of purchasing power.

There are one or two smaller points which I think I ought to mention. I am afraid when I said that "incomes arise out of production," Major Douglas misunderstood me. I mentioned that as one of the matters in regard to which he and I are in agreement. I do not for a moment mean to imply dissent from the statement that he makes, that, in order that incomes may be generated by production, the banks, under our existing system, must supply the necessary money. At the same time I expressed agreement with him on the former point, I also said I agreed with him in thinking that the banks create money. I think that he is mistaken in supposing that there is any real difference between us there.

Then I must refer to his statement that equilibrium would require dividends at the rate of 125 per cent. Of course, when he makes that calculation he is once again, I should say, begging the question. If he was right that there were all these allocated costs which did not materialize into incomes then some calculations of that kind would be in point. It is not exactly consistent with the 25 per cent consumers' credit that he advocated before the Macmillan Committee. On the other hand you will remember the 300 per cent indicated by Mr. Orage in one of Major Douglas's earlier books; that consumers' credits were to be three times what the consumer spent out of his own pocket. But all these calculations, of course, represent nothing more than the calculation of the A + B theorem *on the assumption that it is correct*. Apart from the arithmetical calculation in that case I want also to refer to what Major Douglas says with regard to "dividends." He points out that it is only certain items, wages and salaries that actually accrue before the goods are sold; that everything else, the other constituents of cost, do not become available until then. I think that when he says that, he is doing less than justice to his friends the bankers.

Their function is to make available the incomes at an earlier stage than the final sale of the product. It is through their intervention that it is possible to pay wages and salaries in advance of the sale. And, moreover, it is not in all cases that the bankers have to intervene for the purpose; in some cases the necessary funds are provided by the permanent capital of the concern. All the complications arising from the succession of these items of cost in time are covered by the general formula which I used further back as to the incomes accruing, and the goods placed on sale within an interval. I am afraid I am going on too long, but I ought just to refer to one or two questions put, and some interesting speeches made from the body of the hall.

First of all there was the point several speakers referred to with regard to my statements that control not only of banking but of capital and profits was a question of expediency, rather than of abstract right. It seems to me

that some of the speakers have not quite understood what I said. For instance, Mr. Hickling asked whether it was expedient to continue the existing economic system when 3,000,000 men are unemployed. But surely that is a question not of abstract right but expediency. The question is whether it is *expedient* that we should have all the appalling incidents of trade depression. It is inexpedient. But it is no use saying that the remedy for unemployment is to be decided by the question of whether capital equipment and the profit earning capacity of the country are the property of individuals, or the property of the community. It may be in itself a ground for nationalizing all those enterprises, but it throws no light on the question of how to get rid of unemployment. I adhere completely to what I say, that the question of the control of all those functions is one to be decided on grounds of expediency.

Another speaker said that we produce to live; that we produce for the purpose of a healthy and satisfactory existence. That is a matter of expediency. You may say that a man has an abstract right to a healthy and satisfying existence, but I can see no reason why he should have such a right unless it is "expedient" that he should have a healthy and satisfactory existence.

There was another speaker who referred to the profits of banking, and he induced the Scotch banking system as an example of how to conduct such a business on sound lines. Apparently everyone here thought it perfectly monstrous for banks to make 10 per cent. profit. Now, as a matter of fact, I think there is very little reason to suppose that the big profits made by banks (not only 10 per cent. profits but the much bigger profits that many banks make) are really any higher than the profits made by many industrial and commercial concerns. In very many cases you have not the means of calculating what the profits of industrial or commercial concerns are; and in many others, where the profits are known, the extent to which the capital is watered and is not realized. I think it is a complete mistake to hold up the banks to obloquy because they make a profit which is, after all, not exorbitant if you set against it the very substantial number of banks which have gone under altogether in the past. It may be there is much to be said about the nationalization of banking on the ground, for example, that banks tend to become a quasi-monopoly. I deliberately left that on one side in my paper. I did not want to pursue the point.

THE CHAIRMAN: Ladies and gentlemen, I will now call upon Major Douglas to wind up the debate.

MAJOR DOUGLAS'S CLOSING STATEMENT.

MAJOR DOUGLAS: Mr. Chairman, Mr. Hawtrey, Ladies and Gentlemen – If everyone in this hall has enjoyed listening to Mr. Hawtrey as much as I have, I feel quite sure that you have all enjoyed yourselves very much. I think it has been most interesting and illuminating to all of us. Now the first point that Mr. Hawtrey raised was where did the source of this discrepancy arise? I will deal with that in one minute. I should like to deal with what is practically his last point first, because it makes it easier to deal with the first point.

It is perfectly obvious that the whole of this question really depends on a question of fact. If you string out those factories (diagram 2) indefinitely, to represent all the factories in this country, is it a fact that all of those making a profit *at any moment* can be found to be allocating charges which they do not distribute? It is most unquestionably a fact. That is the way in which every factory is run. The question of what is the actual percentage of those allocated charges which are being collected simultaneously in every factory so that the price values of the goods which are being produced in that factory are in every case of a profit-making concern in excess of the sum which is being distributed in wages and salaries, is a question of fact. That is the case in every factory. Now the question of the figure is a question of opinion, but I think it must be very obvious that whatever the figure is, it must be represented by that percentage of dividend, because there is no other way, excluding exports, of distributing purchasing power that I am aware of, except wages, salaries, and dividends. I include in "dividends" such things as interest, and things of that sort.

The average rate of distribution on turnover must be the same as the allocated charges or else those allocated charges cannot be met. That seems to me to be quite self-evident. The question of the actual figures as to whether every factory, in order to satisfy this condition, ought to pay 100 per cent. or 125 per cent. is a question of figures. There are a great many complications coming into that, and I have dealt with them elsewhere, but as to the fact, it seems to me absolutely unassailable.

MR. HAWTREY: I think it possibly might help if I put a question. My question is: Who are the recipients of these allocated charges; and, secondly, when you put your finger on the recipients can you be sure that they are not intermediaries passing on the money in the form of salaries and wages?

MAJOR DOUGLAS: There can be no recipients of the allocated charges unless they are collected from the public first. That is the whole point. The allocated charges simply represent a claim upon the public which can only be met by the distribution of purchasing power at some source which is not in wages or salaries. If you have a distribution of purchasing power from additional sources equal to the amount of the allocated charges, then the goods which are represented by those allocated charges could be bought. The allocated charges, as charges, are not received by anybody, they are simply tickets hung on the goods, and in order to buy these goods you must have something representing, not merely wages and salaries, but something which I can only describe as dividends equivalent to the amount of the allocated charges.

MR. HAWTREY: I am grateful to Major Douglas, but he has not in the least met my point. It is quite a mistake to suppose that any producer is required to include in his costs some bookkeeping entry that never materializes at all. If he has got to include the provision for depreciation, for example, in his costs it is because he has got to spend

something sometime. He has got to replace his worn-out plant. The depreciation is not in respect of what he has spent, it is in respect of replacement in the future. So far as what he has spent is concerned, what he has to spend is interest and maintenance. If you take the case of something that maintenance will keep efficient for ever so that no provision has to be made for replacement, why then he makes no bookkeeping entry for depreciation at all, or if he does, it is a nominal entry and one which he knows has no other function except as a small additional saving or payments to reserve for the financial strengthening of his business. The only case in which he need make any charge in the price of the goods he sells on account of depreciation is a case in which he is faced with the prospect of having to spend money on capital replacement, and when he spends the money all he has put in the depreciation account has to pass out in the form of other incomes to the people whose services contribute to produce new capital. Here you have, I think, what is the root of the matter. Major Douglas believes these are entirely fictitious items of cost. I contend they are not fictitious. They materialize, they turn into costs in the usual sense. They are incomes, paid for services rendered. That is the real solution, and that applies to all items of cost. The complication that arises is when the items of cost are distributed through time. I dealt at considerable length with that, and I think it is a satisfactory solution.

MAJOR DOUGLAS: I will put a question of fact to Mr. Hawtrey. Will he show me any factory in which the sum of the wages and salaries and dividends spread over – we won't bother about the dividends being distributed at the end of the year – in which the sum of the wages, salaries and dividends is equal to the price values produced in the same period of time? It is impossible to show me such a thing. If you will string out those factories into any number of factors you will find that every one of them is allocating charges which can only be recovered through price, and collectively they can only be recovered through price by the prior distribution of the total amount of the sums allocated. If it is true, and it is true certainly in a number of cases, that the allocated charges are, let us say, 600 per cent. or something of that sort, that is, perhaps an exceptionally high figure, as in stamping plant, but it does occur. If you are going to get that 600 per cent. out of the public you have to get it by distributing it first of all, otherwise it becomes a debt against industry. We come now, and I think I can make my point clear, to his first point, and that is the source of the discrepancy to begin with.

The source of the discrepancy to begin with is in the process of investment. Supposing there was none of this discrepancy to begin with, that is to say, if we start from zero, if you save a certain amount of money which has been distributed through the process of creating costs, then quite indisputably the goods having the price values representing the amount of the money saved can not be sold again or bought. I think you have admitted that.

Mr. HAWTREY: I am sorry to interrupt again. No, I say that if money is saved in an interval of time, and is not held in the form of idle money, but is applied to investment, that is to say, on outlay of new capital goods, there is no disturbance of equilibrium whatever.

MAJOR DOUGLAS: That is the whole point. I want to split that statement up into succeeding stages. Let us say as a physical fact that in the city of Birmingham £100 in wages are distributed this week and that £50 of those are saved. The goods which were produced during this week would have at least £100 of cost in them without going into the question of allocating cost at all. Quite obviously, if you save £50, that £50 of goods which are represented by the savings cannot be bought at the moment. Now then, supposing you apply that £50, not to buying those consumable goods, but to create some more capital goods, in making those capital goods the £50 will undoubtedly go out again into the consumers' market, as you yourself explained, and the consumers' goods, the original consumers' goods, can now be bought. The deficiency has been restored, but you have capital goods to the extent of £50 against which there is no distribution of purchasing power as described by that process (Applause.)

Now those capital goods are regarded by the people who own them – and have paid out for them – saved the money, the actual purchasing power, and have paid out that purchasing power for the construction of those goods – they regard them as the equivalent of that £50, and eventually that £50 has to be recovered from the public, either in the form of interest, or depreciation or other things. My point is that £50 does not exist in purchasing purchasing power.

MR. HAWTREY: My first comment on that illustration is that the £100 being paid in wages would include so much wages as are being paid at that time for the construction of capital goods. It may be that, to start with –- assume it only – the whole £100 are being spent on wages arising out of the production of consumption goods. On that assumption, suppose that the wage earners started saving half of their receipts, so that the demand for consumption goods shrinks by half, and there is an entirely new demand of £50 for capital goods. That is the illustration, I think.

MAJOR DOUGLAS: May I protest against the use of the word "shrinks"? You have already made the consumable goods, otherwise the purchasing power would not have come into the hands of the public to be saved.

MR. HAWTREY: The production of consumable goods is going on concurrently, and the particular moment comes at which, although the production of consumable goods is proceeding at a rate of £100 per week, half the demand for them suddenly vanishes owing to the fact that the wage earners are beginning to save half of their incomes. Well, at that moment, there arises a demand for capital goods of the value of £50. That demand has to be fulfilled somehow or other by the diversion of productive power into the production of capital goods. Of course, it may be that the industry is underemployed, and that you will give new employment in the production of capital goods and throw part of the workmen producing consumption goods out of employment, or, alternatively, it

may be that industry is fully employed, and that people hitherto employed in making consumption goods have to be diverted to the production of capital goods. But whichever happens, there is no loss of equilibrium between demand and supply as a whole. This is a particular case of the contingency I referred to in my paper where there is a change in the proportion of demand applied to consumption goods and capital goods, respectively, but there is no shortage or excess of demand as a whole. I think, if I understood Major Douglas's illustration rightly, that meets his point. You change to a new state of equilibrium where £50 of consumption goods and £50 of capital goods are balanced by equal demand for each category. The process of change will undoubtedly involve dislocation. Everybody is quite aware that sudden economic changes of any kind involve a certain amount of loss and distress. That is not the point. There is no shortage of demand as a whole.

MAJOR DOUGLAS: I am afraid the only way in which people would save £50 would be that they should have already got it through the process of production. Therefore they must have made something which they saved by refraining from buying. When they allow that £50 to be used again to produce something else, the original £50 of price values which they did not buy still remains, and new price values by the use of the £50 again were added to them. That, I am afraid, is how I must leave that. The same question really comes up in connection with Mr. Hawtrey's second point, and that was that I did not allow for the depreciation in the example of the house. That is just exactly what I did do. That is why I brought in the second house. When the first house was built, you remember the money was returned to the original provider of it, and in the first illustration he was supposed to have torn it up, so that there was the house of the value of £1000 but no money. Now the people who used that house for making boots and shoes charged, in one form or another, that £1000 into the price of the shoes, because, they said, they had paid £1000 for it. Now, if, instead of tearing that £1000 up – which, as I said, is the equivalent of returning it to the Bank – they had built another £1000 house, and the workmen had bought it again in the same way, they would have carried out exactly the process which is involved in replacing something which you are depreciating by a financial process, and you would have used the £1000 again to build a second house which was to replace the first house. But that would not get over the fact that with £1000 of actual purchasing power you have produced two houses, each valued at £1000 pounds, and the value of both these houses has to be recovered in the price at which the goods are sold.

MR. HAWTREY: As you now explain your illustration, you are supposing that the workmen charge for depreciation for the use of the first house, but that when the time comes to build a second house, the first house does not require to be replaced. Therefore, the depreciation fund does not have to be used to build a second house. It is only necessary to charge depreciation on the first house with a view to replacement when necessary, and the assumption is that the house is not replaced. But if it *were* replaced, then, what I said earlier on would apply, that is to say, that the charge for depreciation represents a charge which materializes in the payment of incomes in the form of wages salaries and dividends, and so forth, when replacement actually occurs.

MAJOR DOUGLAS: Well, I think I can only repeat the explanation, so that I will leave it at that. I have myself no doubt, and I feel sure that if Mr. Hawtrey reads that explanation over he will agree later that it is possible to have a repeated production of price values by using the same money over and over again.

Now the question of the effect of overheads I dealt with before. I entirely agree with Mr. Hawtrey – as I agree with him on so many points, and I feel sure ultimately we shall probably agree on most points – that the whole question is a question as to whether incomes in a given period of time equal the price values which are produced in the same interval of time. I should myself – subject to going into the details on all the points Mr. Hawtrey raised, say that in his illustration of how he made the incomes equal to price values, he brought in a great many factors which do not occur in the same interval of time, and the whole essence of that is the question as to whether they do occur in the same interval of time. If they do not occur in the same interval of time then it has to be proved that they occur as a plus sign at one point, and as a minus sign at the other, and that, so far as I know, is impossible from the actual facts of industry. Now I think those are the only points raised by Mr. Hawtrey.

A question from the body of the hall was, whether the general ideas I have put forward would work with industry organized at present on titular private ownership. Would they work under those conditions? The answer is quite certainly. No question of change of administration is necessary. I entirely agree with Mr. Hawtrey in the sense he meant it himself, that the administration of industry, which may or may not involve a titular ownership, is entirely a question of expediency and that has nothing to do with the question of the distribution of the product. The question of the administration of industry is quite a different one from the distribution of the product, and the distribution of the product is, in my opinion, entirely wrapped up with this question of credit. Then someone asked whether I had any views on the control of rents. That really comes into the realm of detailed schemes, and the only detailed scheme which I have so far put forward is the one which is known as the scheme for Scotland. That is available to anyone who is interested, and you will see that a number of points are brought up in that which do not appear to have anything to do with this credit question, but which do bear on the question of the ownership of land and the administration of land. But I think that they are too elaborate and outside the scope of tonight's proceedings to be dealt with now, and I would refer that particular inquirer to that particular scheme for the answer to that question. It is, as a matter of fact, being published in a well-known weekly review this week. It has been published, of course, before. One inquirer asked how would this process be shown in the budget. That enables me to raise a point which has not really been

touched upon very much tonight, and which is really at the real core of the whole of this matter. I think Mr. Hawtrey and a good many speakers in the hall – not all of them – have assumed that the industrial system is what it was, let us say, at the time of the Scottish banks. The very core of this situation is that the industrial system is not in that condition, that more and more the industrial process is simply a process of power production, and these allocated costs, of which we have heard so much tonight, are really, if you like to look at them that way, the payment of the machine, and the whole question of accounting has to bear in mind that the productive process is very largely a power process. Now that has a very vital bearing on the question of accounting, this credit process that we have been dealing with, in the National Budget. The National Budget proceeds on this idea. We all know perfectly well – this is quite, I think, beyond dispute – that we are told that the first vital point is to balance the Budget. That is the process which is shown there (Diagram I) of balancing the Budget. Now my contention is that in the first place it is not in the least necessary to balance the Budget, and in the second place that balancing the Budget is not a true reflection of the state of things that is taking place; that actual capital values in this country, in the true sense of the word, are even at the present time increasing steadily, and that if financial restrictions were taken off they could be increased very much faster; therefore that you ought to write up the capital values of the country every year, which would mean that you would pay out from the outgoing side of the credit system – whether you consider it allocated in the Bank of England or anywhere else – you would pay out more than you take in. That paying out would represent the increase of capital production, and the taking in would represent the actual consumption. It is, of course, quite vital and quite fundamental to my views (and to the whole suggestion that you should sell below cost, for instance) that looked at from the true point of view consumption is always much less than production. Under these circumstances you ought to write up your capital costs by the amount of production, and write them down by the amount of depreciation and consumption generally, and that process would be reflected in the Budget. One speaker inquired why I take no notice of the velocity of circulation. The velocity of the circulation of money in the ordinary sense of the phrase, is – if I may put it that way – a complete myth. No additional purchasing power at all is created by the velocity of the circulation of money. The rate of transfer from hand-to-hand, as you might say, of goods is increased, of course, by the rate of spending, but no more costs can be canceled by one unit of purchasing power than one unit of cost. Every time a unit of purchasing power passes through the costing system it creates a cost, and when it comes back again through the same costing system by the buying and transfer of the unit of production to the consuming system it may be cancelled, but that process is quite irrespective of what is called the velocity of money, so the categorical answer is that I do not take any account of the velocity of money in that sense. That, I think, really concludes the answers to questions. (Applause.)

THE CHAIRMAN: Ladies and gentlemen, it has been our pleasure and privilege to listen to a debate on a level which, I am sure you will agree with me, is higher than anything we could possibly hope to hear at any public meeting. The speakers have dealt with each other with a frankness and clearness which I think we can say is exemplary, and there are due from us our most sincere and hearty thanks. On your behalf, ladies and gentlemen, I beg to tender to Mr. Hawtrey and Major Douglas the most sincere thanks of all of us present here for this most interesting, enlightening, and illuminating debate. I hope that the repercussions of this debate will go far. We know that Social Credit is spreading, not only in this country, but in Canada, in Australia, in the United States, and elsewhere. It has brought to many thinking people a new faith and a new hope that the power of man will ultimately succeed in breaking through the chaotic conditions which now prevail, and bring order, peace, goodwill, and progress to the life of men in the future. We thank the speakers for enabling us to see more light on this subject and again on your behalf I beg to tender to them your thanks. (Applause.)

Both Mr. Hawtrey and Major Douglas acknowledged the vote of thanks.

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