

ADDRESS GIVEN BY MAJOR DOUGLAS TO MEMBERS OF THE COUNCIL

Wednesday, 4th October, 1933.

I would like to begin by saying that I am very much impressed by the Questions submitted. It would have been very difficult to draw up ten questions which seem to go more to the heart of the matter than these do.

Question 1. "Are you in favour of the Nationalisation of the Central Bank, i.e., the control and issue of all forms of money by the Crown?"

This question is one of the most important which can be asked of anybody making pretensions to understand bearing of [the] money problem on social conditions.

Extraordinarily subtle question—requires good deal of technical experience to assess its importance.

To give you a sort of picture of the thing, I am going to ask you to dismiss from your minds the whole idea of money. Try and put yourselves in a state of mind which you would be in if you have never heard of money, and there was none. Imagine that you had an unlimited supply of water, supplied in unlimited quantities from the clouds and the rivers, and that the whole problem was one of the distribution of water. Substitute for it, the idea of a water system.

Imagine also that you had a conception in your mind of a reward for service and that the people who were responsible for the satisfactory distribution of this unlimited supply of water—which was absolutely vital to every member of the community—were going to be remunerated for their services by a share of the water.

Remember also that the amount of water is fundamentally unlimited. The problem is that of the distribution of the water.

Under these conditions you will see that the question of whether the state should undertake the distribution of water, or whether you should have a state of affairs in which a local organisation undertakes this distribution, is simply a problem of administration. Fundamentally the question is, which of these possible organisations will distribute the water most satisfactorily?

Your personnel is likely to be the same in both cases. Therefore ultimately it becomes a question as to how you can transmit the desires of the general population to those people in control of the distribution of water. If the desires of the population are not satisfactorily represented by the administrators, what will be the most easily flexible form of pressure to bring upon them to bring them back into the ways of rectitude, e.g., the successful translation of the desires of the general population in regard to the distribution of water?

Remember that the question of the amount of water that these people get themselves is a very side issue. There is a lot of water—more than you can possibly use. They can have—if they want it—a great deal more water than they themselves can possibly use. If you assume as a postulate, that the amount of water is not limited, this question as to how much administrators get is a side issue. The important thing is that everybody should get enough water.

Let us imagine that you have a state organisation in connection with the water system which is immune from public pressure—as public servants are supposed to be and as civil servants actually are—the

only way in which you can bring public pressure to bear upon the organization is by the extremely cumbersome way of Democracy and the Ballot-Box—a very long and complicated process.

Suppose you have in your village a couple of shops, both selling the same sort of cigarettes. In one of them, when you go in, you get courtesy and instant service, and in the other you are met by the announcement, "I will give you your pound of tea as soon as I have washed up," (or done some other thing), you immediately apply effective pressure by going to the other shop.

In my own opinion the first thing to recognize is that it is secondarily a problem of administration and that so far as it is a problem of administration, all the evidence we have is in favour of private competitive administration, which is much more amenable to pressure than is nationalized administration which is only a changed administration and has no relation whatever to policy.

What is the policy in regard to the Money System? This can be answered by saying that the whole question at issue in regard to the policy of the money system is "Does the effective demand represented by money, belong to the banking system or to the public?" That is the whole issue of the money question.

It is only secondarily a question of administration at all. Whether it is administered by the civil service or by the joint stock banks is not the point of issue at all.

I have no doubt whatever that to transfer money power to the Government before you have altered the money system that it cannot be an additional source of tyranny, as it is at the present time, is simply to concentrate your tyranny.

I have no doubt whatever that to nationalize the Bank of England at the present time, would not only be one of the most cardinal errors that could take place, but would make impossible [to make—delete] any changes in the money system as such, without an armed revolution.

Question 2. "Do you advocate the abolition of the Gold Basis?"

Yes. The Gold Basis has no relation whatever to the necessities of a scientific money system—is simply devised for the retention of control of credit in the hands of the international financial organisers.

Question 3. "What Basis do you advocate?"

This is a very highly technical question. The short answer to it is that the proper basis for a money system is the ratio of production to consumption.

There is no such thing as a "standard of value" at all. The whole idea of a standard of value is a complete misapprehension of reality or anything else. All values are relative.

They do not bear any relation to gold as such, because gold is no more a standard in this sense than anything else is. For example, every time you may conceive of yourself as inventing a new use for gold, you obviously alter the relative value of gold to everything

else.

What you can do is to *generalize* all production and all consumption, not in regard to some perfectly arbitrary thing like gold, but in regard to each other.

In this way you have a flexible standard which takes into account from second to second all the changes that take place in production and consumption. These changes are what is important in regard to the answer to the next Question.

Question 4. “What should be the purpose of money?”

In many places there is a complete misapprehension as to the use of [a] money system at the present time.

In the first place all the vocal orthodox economists are quite obviously and honestly unaware of any change whatever in the reasonable functions of money and in the economic system in the last 300 or 400 years. For example, I saw a letter attacking me in *The Listener* from someone who said that my views on Economics had been exposed by Sir Francis North in 1641! To my mind that is one of the most completely damning things that could be said. Anything I can contribute is based on the conditions which have come into prominence within the past fifty years.

The first thing to be clear about is that the idea of money as a medium of exchange is, if not obsolete, so rapidly becoming obsolescent it is really not worth considering [i.e.,] the idea of an economic system carried on by isolated craftsmen or farmers exchanging their products with each other on a basis which will ensure that the products are in fact, exchanged.]

The modern economic system is not in least like that. It is a system in which you have a central pool of production through enormous industrial organisations in which by far the most important factor is real capital—machines, power, etc., and the problem is not to exchange between these institutions. It is to distribute from them to people who fundamentally have nothing whatever to exchange. They are simply standing on the outside line of an organisation which is productive, and the problem is to get the goods over from the organization to these people—not to exchange at all.

The idea of a money system as a means of exchange is only applicable to a small and diminishing fraction of the total production of the world.

Therefore, it is of the most fundamental importance to enquire what is the purpose of money.

It is that it is first of all an effective demand—a ticket system—a valid demand for goods and services. Consequently, it is the most extraordinarily flexible voting system which the mind of man can conceive.

Every time I go into a tobacconist’s shop and buy a pack of Black Cat in preference to Gold Flake, I vote for Black Cat in preference to Gold Flake. Every time I buy Cadbury’s cocoa in preference to Fry’s, I vote for Cadbury’s. This preference is transmitted day by day to the companies concerned and they know whether or not their goods are meeting with public approval. This is the whole essence of the economic system. The problem is to produce what the public want and to get it over to them.

The fundamental purpose of a proper money system is first to give the most rapid and flexible indication to producing organisations as to what the public want, and secondly to see they get it.

Question 5. “In what form do you consider money should be put into circulation?”

This does not matter. My own opinion is that ultimately something like the cheque will supercede all other forms of money.

It is anyway not a matter of the slightest importance.

Question 6. “Do you consider that a standardisation of currency or of values is necessary?”

From my point of view, this question is meaningless, though it is important to make this clear. It is in the phraseology of an outworn type of thought.

The first essence of appreciation of the problem is to divest yourself from the classical type of thought. Standardisation of currency, does not mean anything, for example, a standard weight. The whole idea of relating this problem to the physical idea of standards is a complete misconception. It is one on which more people have fallen down than anything else, and it is being used at the present time by orthodox financial people with the greatest success.

(For example, Strakosch at a recent meeting of engineers pointed out the absurdity of taking a tube or mercury, which altered with every movement, as a standard.)

To ninety-nine people out of one-hundred, this sounds like a conclusive argument. It has nothing to do with the problem whatever. The problem of the distribution of the products of production is not an ethical problem or one of measuring what has been produced. It is primarily a problem of estimating what can be produced and is desired shall be distributed.

The actual rate of production of the machinery of the world changes from minute to minute and from day to day. Every time you have a new invention it may add five per cent or six per cent to the productive capacity of the whole world, in regard perhaps to every other machine that has previously been invented.

The idea of standardization is one which has to do with a particular type of thought, all mixed up with “justice” and “equity” and these sorts of things.

Take this question of justice. Supposing you had ten men who were crossing the Sahara Desert in a caravan and had a limited supply of water, and a long journey to take. Quite obviously the exact distribution of that water is not merely one [sic—a matter] of justice but one of efficiency. There will not be enough to go around unless you measure it out, a certain amount every day. You will create friction if one man gets more than another. But if you take the men out of the Sahara and put them by the shores of Lake Superior, is it reasonable to go on ladling out teaspoonsful of water when there is so much they can drown themselves in it if they want to?

All these ideas may have been sound when there was a genuine scarcity. At the present time the problem is to distribute abundance and not to measure the scarcity.

Question 7. “What method of international exchange of goods do you propose?”

This is a highly technical question. The short answer is that the Bill of Exchange is a perfect mechanism under premises of ideas discussed this morning.

Theoretically, exchange works in this way. The price of exchange of the currency of a community is inversely proportional to the price level of the country to which it relates.

Supposing you have the exchange level between francs and pounds this week, [of] one-hundred to one. This means that the Frenchman will pay one-hundred francs for every pound sterling. He can buy of English goods for one pound what he can buy in French goods for one-hundred francs. He will not pay for the pound, more or less than this amount.

Then suppose that by some process, next week, I reduce the general price level from a price level of one-hundred to a price level of fifty. Immediately, the Frenchman is prepared to pay two-hundred francs for every pound because with one pound he can buy in England what he can buy in France for two-hundred francs.

The fly in the ointment of this theory is that the Exchange Brokerage is a closed corporation. If you want to buy a large number of francs you will come ultimately to six or seven people all of whom are international brokers and have control of the exchange. They can raise or lower exchange, or refuse it altogether in which case an impasse is reached very shortly.

If they raise the exchange of a country, e.g., England—if they put a premium on sterling, they would penalise our products, but at the same time it enables this country to buy a great many imports much cheaper. These two things off-set each other to the extent that we make the necessary arrangement to absorb imports without creating an internal economic situation.

If they take the opposite line—to hammer the exchange down—immediately they create a tremendous pressure on export and if any change in the economic system occurs at all we are put in a very advantageous position to capture foreign imports. People can buy sterling at a low rate and therefore can buy British products at a low rate. This is a very serious problem to exchange brokers.

Question 8. “Are you in favour of an international currency?”

No. There is no necessity for an international currency and you never solve any problem by making it bigger. One of the very strongest lines of defence of the international financier is this curious idea which has been inculcated in people’s minds that you do solve a problem by making it bigger. They desire to get people to believe that although one state cannot solve its problems or one town, if you make the town subservient to the state, that will solve the problem. But it will only defer the solution of the problem.

This problem of currency can be solved nationally—not because theoretically it could not be solved on a much smaller scale, i.e., a municipal scale—but it is not a theoretical problem; it is a military problem. What you have to do is to decide the unit of population which can effectively challenge the measures brought to bear on any state or town which departs from those rules favourable to high international finance. Wherever this problem is effectively challenged first, the whole weight of World International Finance will be brought to bear on this spot. The only question is what can they do? And how can it be resisted?

I think this is a very large bogey. If you get to the point when you get to action, international finance can probably do very little. The problem must be made smaller and smaller and smaller till you have got it under control.

Question 9. “What is your method of getting and continuing control?”

Constitutional pressure. The real problem is not a technical problem. Having once got the ideas clear, the ideas can be pigeon-holed away. Ultimately it is a military problem. Ultimately the decision rests with the last squadron of bombing aeroplanes. If you are going to do things which the rules of the game forbid, all the sanctions of the State will eventually be brought to bear against you and the last final sanction is stark force—~~and not challenge it.~~ These words have been struck out on the copy.]

Very largely speaking, stark force in any modern country is very nearly neutral or agnostic. It does as it is told. If a military officer gets orders from the right room in the right building he does not care who he gets them from. Your business is to get the right people in the right rooms in the right buildings.

There is only one practical way of doing that—not to worry about electing a Government of your own. What you have to do is to make the life of every existing member of the existing constitution a misery till they do as you want. This can be done, if you really mean it.

Question 10. “Will your system insure economic freedom for the individual so that each is free to express his own life in his own way, providing that it does not interfere with the welfare of the community?”

Yes. There will be a very large number of things that will still want doing in the world when the financial problem is satisfactorily settled. But I am absolutely certain that none of them can be done till the problem *is* settled.

It is a problem of priority. When you have the individual free from all the artificial stresses which are brought to bear on him by the control of the press, the constant pumping into him of ideas not grounded on fact, when you have the B.B.C. controlled by the Bank of England, you cannot hope to solve any problem. The problem is not even stated, with any hope of its being understood.

This financial problem is so difficult because it is not humanly possible for any but a small number of people to understand it. When the financial problem has been solved, you will be at stage One in which the provisions of this Question [will?--unclear text] have reasonable hope of fulfilment.

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Note:

This document has been prepared from a rather poor copy of what appears to have been a type-written draft of Major Douglas’s address. This accounts for the several instances of minor editing which appear in the text. The document was found in the personal papers of the late Leslie Denis Byrne who was a close confidant of Douglas.