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444

Mr Hawtrey's Giraffe

Part I

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MR. R. G. HAWTREY, Assistant Secretary to His Majesty's Treasury, first publicly entered the lists against Major Douglas in a debate at Birmingham on March 22, 1933. The debate was fully reported in *The New Age* in April, and in *The New Era*, Australia, in June of that year. Nothing that Mr. Hawtrey had to say on that occasion was sufficient to convince a large public audience of any flaw in the argument put forward by Major Douglas, while for the serious student of finance who examines the full reports of the debate, Mr. Hawtrey's failure was still more marked, as will be seen.

Mr. Hawtrey's second attempt was made in a lecture which he delivered on July 25, 1936, at the Social Credit study course for Conservatives at the Bonar Law College, Ashridge. This lecture is now reproduced as Chapter X in his book, which he has named "Capital and Employment".¹

It is perhaps worth noting that this title is evidence of some preoccupation with the curious Twentieth Century authoritarian fallacy that the existing economic system, which requires so much apology, should be judged by the amount of employment it can stimulate. From the realist standpoint of Social Credit, industrial and commercial employment is only one of many fields of activity open to the individual, and the proper interest of the economist, who should be concerned with efficiency in the provision of man's material needs, is the elimination of all unnecessary work.

Apart from its title, however, Mr. Hawtrey's book has little concern with man's material needs; it pursues its way, superbly aloof, at about three removes from reality, and the intrusion of reality seems even to be resented. For example, Mr. Hawtrey sees fit to criticise the use by Major Douglas of the term "semi-manufactures" as "not 445 very happily chosen." Nevertheless, a few moments' thought should be enough for any literate person to form a fair picture of what is meant by the term without any further explanation. I defy anyone, however, to say what Mr. Hawtrey means by the "widening of capital" or the "deepening of capital" without further explanation; and after one explanation it is an even bet that they will not know which is which. Yet these two terms are used constantly throughout the book, except in Chapter X.

The careful explanation, both at Birmingham and in the introduction to his book, that he is expressing personal views not to be associated with his official position at the Treasury, may provide the reason for his studious avoidance of reality. Mr. Hawtrey knows that he cannot escape his responsibilities.

One of Mr. Hawtrey's flights from reality, to which he evidently attaches importance, since it appears both in the Birmingham debate and the Ashridge lecture, concerns an uninhabited island. Such excursions seldom prove the point they are meant to prove, and this is no exception; it does, however, help to reveal the gulf between the "orthodox" picture of the world we live in and reality. It will be found on page 299 of his book.

A party of castaways on an uninhabited island may undergo great privations at the outset, while they are improving the productive capacity of the island. Then, after the preliminary work is done, they enjoy a regular and possibly comfortable subsistence. And finally, when they are rescued, they leave their improvements, their growing crops and their accumulated reserves to run to waste. There is a deficiency of consumable goods at the beginning and a deficiency of demand at the end. If they used money and arranged that everyone had a fixed income in terms of monetary units, they would pay high prices for their inadequate subsistence at the beginning. That stage would conform to Major Douglas's description in the second edition of 'Economic Democracy' (page 68): 'The public does not buy machinery, industrial buildings, etc., for personal consumption,' but it pays the price of them, 'since they form an overhead cost added to the price of ultimate products.'

But this does not depend on the use of money or of credit. What involves the castaways in their initial privation is the need to accumulate the requisite capital equipment. They can only do so by applying to the work of improvement productive effort that is sorely needed for current subsistence. In an established community this process has been spread over centuries in the 446 past, and the current addition to capital equipment is made without difficulty out of current voluntary savings."

There are several points of interest to be examined before fitting this passage into its context. First of all, the whole question of "poverty amidst plenty" is begged by the assumption of an environment of genuine scarcity for the castaways. In point of fact there is a richly endowed, inhabited island in which we are all much more interested. Upon this island, as a going concern, upwards of three quarters of a million souls are cast away each year, and most of them undergo great privations throughout their stay, thanks to the gross mismanagement of Mr. Hawtrey's department, so that the half-million or so who are "rescued" every year may well be thankful for it. Indeed, more than five thousand of them adopt desperate measures to escape.²

The next point of interest is balanced upon the hair which divides the sublime from the ridiculous. Having projected himself on to an imaginary desert island, Mr. Hawtrey, in the most matter of fact way, supposes that his castaways would adopt the precise common-sense arrangement which he is so busily engaged in attacking. If they used money, he opines, they would arrange for everyone to have a fixed income in terms of monetary units. Of course they would, unless they were so unfortunate as to have in their number a banker, an economist, or any other Treasury expert except Mr. Hawtrey. Here, probably unknown to himself, until by chance he reads these words, is one of those bits of Mr. Hawtrey's sub-conscious mind which have endeared him to Social Crediters, practically alone among all the critics they have had to face.

Major Douglas, in his own address at Ashridge,³ remarked on this peculiar trait when he said:

Only a brilliant economist like Mr. Hawtrey, with all the orthodox training, familiar with the thought of other brilliant economists, and steeped in the tradition of the Treasury—which is the Tweedledee to the Bank of England's Tweedledum—would suggest, for instance, that a country like Great Britain, with a National Debt of £8,000 million, which is increasing daily, has on the average paid for, and is paying for, what it produced. If 447 I manage to live by increasing the mortgage on my house, it seems to me a misuse of language to say that I am paying my way. Might I add that despite his heavy handicaps, I perceive signs that Mr. Hawtrey will join other economists who are becoming and have become realists!"

Having provided his islanders with a National Dividend, Mr. Hawtrey asserts that they would pay high prices for their inadequate subsistence at the beginning. He does not explain why they should pay high prices, nor does he mention the price level in relation to which they are to be regarded as high. According to Thorold Rogers,⁴ about the time of Robinson Crusoe the price of a sheep in England was 3s., so that 4s. would be a high price for Man Friday; but so long as he had a National Dividend with which to pay it, it is doubtful if this would have worried him much.

It is clear from the context that the high prices are mentioned, not to illustrate any inflationary effect of giving everybody some money, but merely to harmonise with the supposed early period of privation and capital expansion. No doubt Mr. Hawtrey thinks that is how it ought to be, in spite of the fact that capital expansion in the modern world always coincides with less rather than more privation, even if the only new capital which commends itself to our lords and masters takes the form of capital ships, bombs and bombers.

The bee in Mr. Hawtrey's bonnet which compels him in theory, in spite of all practical evidence to the contrary, to connect privation with capital expansion is exposed in the second paragraph of the quoted passage. It must be a very respectable bee, since it inhabits the bonnets of all but a very few of the world's professional economists, and these few prefer to keep quiet about what they know, out of consideration for the source of their income. Indeed, even one well-known monetary reformer has been unable to rid himself of it.⁵ It is a fallacy from the age of scarcity.

"Modification in the creed of the orthodox," said Major Douglas feelingly in 1918, "is both difficult and conducive to exasperation; since because the form is 448 commonly mistaken for the substance it is not clearly seen why a statement which has embodied a sound principle, may in course of time become a dangerous hindrance to progress."

Of such a character is the belief that a period of abstinence must precede any improvement in the standard of living, or as Mr. Hawtrey puts it, "What involves the castaways in their initial privations is the need to accumulate the requisite capital equipment. They can only do so by applying to the work of improvement productive effort that is sorely needed for current subsistence."

It is not necessary to leave Mr. Hawtrey's island to show the circumstances in which this statement may embody a sound principle, and those in which it becomes a dangerous hindrance to progress.⁶

We may suppose in the first instance that the climate, vegetation, and animal life of the island are of the grimmest, so that the unremitting labour of every castaway is needed to maintain a standard of nutrition considerably short of the minimum recommended by the League of Nations. In an endeavour to climb the ladder of civilisation the islanders decide to add fish to their diet, and this involves the production of a boat and tackle. They can obtain this only by applying to it productive effort sorely needed for current subsistence. Those engaged in this work must have their energies sustained by food, but there are fewer to wrest the food from parsimonious Nature. The standard of nutrition of the whole community must be depressed to the level of the less fortunate half of the British population. For Mr. Hawtrey's islanders, however, there is some hope that they will in time return to a more nourishing diet with the addition of some freshly-caught fish.

But suppose the island to be one of those fortunate ones endowed with a perfect climate, so that at all seasons there is a profusion of fruit, vegetables, flowers, birds and beasts. It would be the perhaps coveted task of a few of the islanders to arrange meals for the whole community, of a standard, except for fish, comparable with that enjoyed by delegates to the League of Nations; while their companions would have the choice of devoting them-**449** selves to the arts and the sciences, or to entertaining their fellows with dancing, singing, and laughter. Suppose now that these islanders wished to add fish to their diet. What would they say to the suggestion that there must first be a period of abstinence while someone builds a boat and tackle? It is doubtful whether they would be able to speak for laughing.

Unfortunately it is no laughing matter when Mr. Neville Chamberlain (prompted by the Treasury!) solemnly informs us that "Rearmament for Britain means pulling down the standard of living for a generation to come, and ever-rising burdens of taxation." My comment at the time upon this piece of sagacious nonsense has a direct bearing upon the bee in Mr. Hawtrey's bonnet:

So far from rearmament being a burden on this and future generations, it is the very activity which has released purchasing power where it is needed—in the pockets of the people. It is a silly unnecessary way of releasing purchasing power, but that is what rearmament has done. The employees of the booming armament industry are enabled to call upon the vast resources of modern production for their requirements of food, warmth and shelter, aye, and amusements, and beer and cigarettes—on one condition. That condition is that they work at making guns, battleships, bombing planes, and poison gas. A National Dividend would enable them and others to call upon the same vast resources for all they need without having to make guns first. But if we need armaments it is clear that we can make them and enjoy a higher standard of living, not a lower one. There is plenty for all, and time and resources to make armaments into the bargain if need be.⁷

Mr. Hawtrey's final quoted sentence can now be rewritten: "In an established community the improvement of process has been spread over centuries in the past, and any current addition to capital equipment can be made without difficulty from reserves of energy, without any need for collective saving or abstinence whether voluntary or forced."

The basis for such a statement is one of the fundamental propositions of the Douglas thesis, namely, that what is miscalled production is really the conversion of one thing into another by the application of energy, while the rate at which this operation can be performed is dependent on process. Broadly speaking, all energy derives from the **450** sun, and by natural processes the castaways on the fortunate isle were provided with a continuous supply of vegetable and animal "products," converted from less palatable material by the sun's energy.

The world in general is dependent for its well-being upon an augmentation of its natural processes by artificial processes. These have now reached a very high standard, and react on each other (more and better goods, for example, can be carried further and faster by more and better transport); so that there is now no reasonable requirement of individuals which cannot be made and distributed by various methods requiring ever less expenditure of energy by human beings.

There is an obvious reserve of energy in those human beings who are "unemployed," and in the factories which are working short time. There is a less obvious, but still greater reserve of energy which becomes apparent to the discerning when for any reason demand becomes effective through a distribution of money.

A big public works programme, a building "revival," an armament boom, a war—all these distribute money to people who previously were short of money. The people stop just wanting and begin to buy, and it is then the reserves come into play. Yet the scarcity economist insists that abstinence is required through the medium of taxes, either now or in the future. Now the postponement of abstinence by deferring taxes to the future (the proposition which the Treasury has adopted for the bulk of the rearmament programme) is alone sufficient to expose the fallacy. You cannot borrow from the future, so the future has nothing to repay, and you cannot abstain today in order that capital expansion could take place ten years ago.

This self-evident fact has been ignored by the Treasury, and the monument to its ignorance—its criminal betrayal of the nation—is a National Debt of £8,000,000,000.

III

Mr. Hawtrey begins both his criticisms by proclaiming his entire agreement with Major Douglas in certain respects. Among these he mentioned at Birmingham the view that the demand for commodities arises from incomes, and that incomes arise out of production; and, further, that banks create money and govern its supply. **451** There are still economists who twist themselves into knots trying to prove that banks do not create and destroy money; but this is of no moment, for, as Mr. Hawtrey demonstrates in his book, no one economist agrees with any other. It is a relief not to have to argue about this with Mr. Hawtrey.

It is, however, interesting to observe the very loose phrase "that incomes arise out of production." Major Douglas has never said such a thing, and pointed out at Birmingham that incomes do not arise out of production; price values arise out of production, while incomes arise out of the bank's creation of purchasing power. Yet Mr. Hawtrey made the same blunder again at Ashridge, referring to "the incomes which are generated by the process of production." If we keep at him long enough he will grasp the difference between generation and distribution, and its importance, which the banks fully understand. Distribution can be left to agents to handle; it is a secondary and routine operation, which involves no initiative. Generation is an act of initiative; the banks allow no agents to perform that, not even the Treasury.

The Treasury is allowed to distribute money through the spending departments, and is made responsible for recovering it in taxation. But it is the bankers' Bank which generates it, lends it, and demands its repayment. The constant outcry for a balanced budget is simply a demand that all the money lent in a year shall be recovered in taxation and repaid.

On the subject of agreement, real or fancied, there is a charmingly specious little argument of Mr. Hawtrey's which is worthy of comment. On page 300 he says:

In the course of our debate at Birmingham in 1933 Major Douglas agreed that an excess of demand for consumable goods can be caused '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 war time. I do not regard it,' he said, 'as a sane system that, before you can buy a cabbage it is absolutely necessary to make a machine gun.' But armaments are not the only products that consumers do not buy. An excess of demand is equally caused by the production of semi-manufactures of any kind.

That word "but" is delicious. For first of all Major Douglas did not say that armaments were the only **452** products that consumers do not buy. On the contrary, he specifically used the word "goods," which can scarcely be taken to exclude everything but armaments.

There is something which makes it more delicious still: The fact is that Mr. Hawtrey's whole attack rests upon a denial that there is an inherent defect in the financial system which persistently tends to create a deficiency of purchasing power in relation to prices—a deficiency which must be made good by a further distribution of purchasing power.

One of the several ways in which such a further distribution can be made, as Major Douglas has frequently pointed out, is by loan credit created by the banks for making goods which are not intended to be sold to the public. Unfortunately, this merely tends to pile up an unrepayable load of debt, the interest upon which will further aggravate the situation in due course. It would be interesting to know what is the total sum of debt in this country if there are added together the National Debt, municipal debt, industrial debt, and individual debts, including instalments due on houses, furniture, and other effects.

Yet here we have Mr. Hawtrey blandly pretending that he has forced Major Douglas into a damaging admission, when that admission is in fact an integral part of his A + B theorem.

(To be continued)

¹ "Capital and Employment" by R G Hawtrey (Longmans , Green, 15s). Chapter X, "Social Credit"

² There are upwards of 5000 suicides a year in this country.

³ *The Fig Tree* September 1936

⁴ "Six Centuries of Work and Wages"

⁵ "Wealth, Virtual Wealth, and Debt" by Professor Frederick Soddy

⁶ "Economic Democracy" Chapter I

⁷ *Social Credit* 5 February 1937