

# AN OUTLINE OF SOCIAL CREDIT

by H. M. M. [H M Murray]

With a Foreword

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## PREFACE

In writing a short foreword to H. M. M.'s outline of the general principles which an increasing number of persons believe must be the basis of the coming epoch, I am impressed by the appositeness of the time at which his pamphlet appears.

It is, I think, generally appreciated that the path of those who endeavour to explain to the general public the defects and the dangers of the Financial system which governs daily life is not an easy one, and that an unusual number of obstacles impedes their progress. But in spite of this, it is evident that the matter is now attracting widespread and influential attention in quarters far removed from those commonly associated with social reform, and for my own part I am convinced that the next few years will witness a struggle between the forces of progress and reaction transcending in importance that which has raged round any issue within historic times.

The subject dealt with in these pages is one which presents peculiar difficulties in regard to a popular presentation of it. A political economist has been defined as "a man possessing a large amount of knowledge of what ain't so," and whatever little knowledge in regard to the subject of money is possessed by the general public shows a tendency to come under this definition. While, therefore, there is a sense in which it may be said that such matters as the control of credit and the initiation of the just price are simple, it is necessary to qualify this statement with the admission that it is almost impossible to understand them if the orthodox conceptions of wealth, the "reality of money," the "virtue of monetary saving," and the "objective of industry," are taken for granted. Many attempts to simplify the thesis have been made. Some of them have been simple without being sound; some have been sound without being simple, and numbers of them have been neither sound nor simple. I believe that H. M. M.'s has achieved both soundness and simplicity, and I feel sure that his effort will be rewarded by an increased apprehension of the magnitude of the issues at stake.

C. H. Douglas

## INTRODUCTION

There is no better introduction to the subject of Social Credit than the address given by Major Douglas to the members of the Canadian Club in Ottawa, when he was over in Canada in 1923, on invitation, to lay his views before the Canadian Parliamentary Committee on Banking and Commerce, in connection with the renewal of the Bank Charter Act, then under consideration.

The account here given appeared in *The Citizen of Ottawa* of April 25 1923, and was reprinted in *Credit Power* in June 1923.

In opening his address Major Douglas said that when at rather short notice, due, he felt sure, only to the pressure of events, he heard he was to have the pleasure and honour of addressing the members of the Canadian Club at Ottawa, and saw that the title of his address was to be "An

Engineer's Solution of the Industrial Problem," he was bound to say that for the moment he was seized with a certain amount of trepidation. He said he appreciated the honour, and his mind went back to an early part of his mis-spent youth when personages in caps and gowns broke in upon his activities with demands to explain the relation, say, of the differential calculus to the motions of the moon or something of that kind. (Laughter) But on thinking it over he recalled that no doubt the members of the Canadian Club were human, and that it might be well if he went over the line of thought and experiences that had brought him to the conclusions he had reached. He said the beginning of this rather long-winded story was about fifteen years ago. He said he was in India in charge of the Westinghouse interests in the East, and it happened that one of those interests concerned a survey of a large district with a good deal of water-power. The survey was made at the instance of the Government of India, and there was found to be a good deal of water power all right. Major Douglas said he went back to Calcutta and Simla and asked what was going to be done about these. They said, "Well, we have not got any money." At the time manufacturers in Great Britain were hard put to for orders, and prices for machinery were very low indeed. Major Douglas said he accepted the statement made, and he supposed, pigeonholed the fact in his mind.

At that time, he said, he dined frequently with a gentleman who was the controller-general of India, and he used to bore him very considerably by continually talking about something that he called credit. He used to tell of his experiences in India and Britain with Treasury officials who persisted in melting down and re-coining rupees, having regard to what they called "the quantity theory of money." Silver and gold have nothing to do with the situation; it nearly entirely depends upon credit," his friend used to say. Major Douglas remarked that had his friend given him a short, sharp lecture on Mesopotamia it would have been at that time about as intelligible to him. Nevertheless, that fact also must have got pigeon-holed in his mind.

Major Douglas proceeded to say that just before the war he was employed by the British Government in connection with a railway for the Post Office from Paddington to Whitechapel. There were no physical difficulties with the enterprise at all. He used to get orders to get along

with the job. He used to get orders to slow up with the job and pay off the men. "And, as a matter of fact," said Major Douglas, "the railway is not finished yet." (Laughter.) "Then the war came," said Major Douglas "and I began to notice you could get money for any purpose." And that struck him again as being curious.

After that there was an interval, so far as he was concerned personally, until he was sent down to Farnborough to the Royal Aircraft Works in connection with a certain amount of muddle into which that institution had got. After some weeks he had found that the only way in which he could do anything was to go very carefully into the costing. His friend, Sir Guy Calthrop, had suggested to him to get some tabulating machines, which he did, and after a time he began to live with those things, he said, and even to dream of rivers of cards emanating from those machines. One day it struck him, with regard to the figures on those cards, that the wages and the salaries did not represent at the week-end the value or the price of those goods produced. "You say anybody would know that, and I suppose they would," said the Major. But it followed to him if that was true, then it was also true in every factory in every week at the same time. Therefore it was true that the amount of purchasing power or wages and salaries during the week was not sufficient to buy the product according to the price at that week. He said he was confirmed in this by talking with his chief accountant, who told him that the Treasury notes drawn out of the bank each week at Aldershot seemed to come back again. Some of them became quite old friends.

When, after that, he was immersed in industrial disputes he had found that the easiest solution of the difficulty with those who were fighting for more wages was to give it to them. "It settled everything," added the Major, amid laughter.

Afterwards, he said, he went to Richborough, one of the concrete cities built during the war. And he was immensely impressed by the fact that, despite the withdrawal of something like seven millions of the best producers in the country, leaving behind the C3 population, the older people, women and girls, yet they had been able to raise such wonderful concrete cities. Also, there were being poured out immense quantities of material to be destroyed. Yet everybody in the country was living at least at as high a standard as before the war. These more or less detached facts became also more or less pigeon-holed in his mind.

Then his attention was attracted to a huge propaganda that was being conducted to the effect that "we must produce more." And he began to think what would happen when the whole of this intensive production was diverted in peace time. Afterwards, this intensive propaganda gained volume, and it was supplemented by a new cry that they were a poor, poor nation, and only hard work would save them from destruction. (Laughter.)

Then, he said, he wrote an article, the first he had ever attempted. It dealt with the delusion of super-production, and the circumstances he had mentioned. He had said that if things were as represented, then the more that was produced the bigger the problem was going to become. He was severely censured for his contentions and called unpatriotic. But there was no doubt about it that so far as Britain was concerned, and he believed Canada, and he knew for a fact United States, they were absolutely chock full of the newest producing plant. Farms had been

cultivated. There was no unemployment at the time, and no desire for it. Then there came a feverish boom, and a spectacular rise in prices; afterwards an equally spectacular slump, and unemployment. All those wonderful plants began to be broken up and the owners to go into bankruptcy.

“It was not true in 1919 that Britain was a poor, poor country,” emphatically asserted Major Douglas. He said for fifteen years he had been pigeon-holing these disconnected facts, and he was thinking these things over when his mind went back to his Anglo-Indian friend. He thought to himself: That man was right; the key to the problem is credit. “The People at large had not got sufficient purchasing power,” said Major Douglas. “I know from my own technical knowledge, said Major Douglas emphatically and amid applause, “that there is no production problem in the world at all; that there is no single thing which, if you will put your money down on the table, you cannot get.” Also he said that there is something very seriously wrong with administration. “Socialism is no remedy,” he declared. “It is only an administrative panacea. The only way that administration came in was by the consideration that it does not control policy, but finance does. It is the man who pays the piper who calls the tune,” added the Major amid applause. “I should like to emphasise the position,” said the speaker. You have on the one side a demonstrated capacity to produce and deliver goods which is far in excess of any possible demands so long as you don’t produce that overwhelming consumer, war.” Eliminate war, and there was a producing system far in excess of any demands that can be made upon it. Major Douglas claimed that the war and the events that followed have proved that. “It used to said,” he urged “that the cutting off of Russia would raise the price of wheat in Britain to famine prices.” “Yet within five years the price of wheat in Britain was less than before”, he said. The exclusion of these enormous wheat areas had made no perceptible difference at all on the ability of the remaining areas to supply the demands for wheat. Major Douglas said he mentioned that because people would admit the argument as regards manufacturers, but deny it as far as agriculture is concerned. Hence his illustration.

There was therefore this first fact, that the ascertained production power of the world is far in excess of the power to consume. Yet, on the other side, there was an increasing clamour for the bare necessities of life in many places. There were huge areas of people in many big cities living under conditions that did not constitute a decent standard of living.

“So if there was enormous capacity to produce, and there were enormous needs to be filled, and something came between the two, what was it?” queried the speaker. “It is the ticket system,” said Major Douglas, “by which the people who want can get from the people who produce, that is, the financial system,” he added.

Having ascertained the broad outline of the thing, the Major said, the solution became technical. They had to deal with the problem to some extent along the lines in which they would deal with the movements of trains or the running of a factory. He did not in the slightest degree mean any sort of mechanical process, he said. “What we have to realise,” said the Major, “is that we have only one way of moving things about the world, and that is what we call money or finance.” Major Douglas said they had demonstrated that they could produce and deliver anything that

anybody could require, and they had demonstrated that that movement does not take place satisfactorily. Major Douglas said it was most definitely incumbent on people who are prepared to do a good job when they see it, that if something is not done as regards this ticket system, the thing that stands between, then they would have to stand down, and let the people who are least fitted to do it, from lack of experience, try to do it. Somebody has got to do something, warned Major Douglas, and the question is—who is going to do it first?" I would ask you to direct your attention to the proposition that I am putting before you; that it is perfectly impossible to deny that the real difficulty lies in the financial system, and that the difficulty arises not through lack of goods but in the lack of purchasing power. That that purchasing power is simply a question of tickets, and that what you have to do is to get into the ticket system with the single object of producing and of arranging that people shall get more purchasing power. Until you do," said the Major in closing, "any further ability to produce is only stultified by the inability of the general population to consume what you produce and, as a result, that energy we have all tried to apply to production, is forced into wrong channels, and we get a badly-unbalanced production system, which, I think, is what we have at the present time.

#### I.

As Major Douglas's discovery that the aggregate of prices is always greater than the aggregate of incomes is a matter of prime importance, let us study it a little more closely.

If all the costs of production were traced back to their original source, it would be found that they consist of payments made to somebody or other for services rendered, real or imaginary; so, at a first glance, it might seem obvious that, no matter what the cost of production may be, there is always bound to be sufficient money in the community's hands to buy the whole product. That is far from being the case.

What is overlooked is that the various items appearing in costs to-day represent payments made over a long period of time. Some were made last week, some last month, some last year, some many years ago; but to be effective as purchasing power now— as they would have to be in order to buy today's products—every penny of those payments would have had to be saved. We know, however, that most of the money was spent as it was received—had to be spent by the recipients in order to live and no longer exists as purchasing power; for, as we shall see later, money, or purchasing power, is extinguished in buying goods for final use or consumption.

Take any business you like, and analyse its costs, and you will find that they can be divided into two groups—inside and outside payments. Inside payments are the wages, salaries, commissions, dividends, and directors fees, etc., paid to, or received by all the individuals associated with that business, employers and employed, and constitute their income. Outside payments are payments made to other firms for plant and machinery, raw materials, etc., and these payments are obviously not income so far as the paying firm is concerned, yet the selling price of its products is the sum of the inside and outside payments. It follows, therefore, that the people in that business cannot buy all they produce—assuming that they wanted to do so. Receiving an income

representing the inside payments alone, they clearly cannot pay prices made up of both inside and outside payments. That is true of any single business, therefore it is true of all businesses collectively.

It follows, then, that the income of the community is insufficient to buy all the goods it produces. This statement remains true even if all profits and interest are eliminated. Prices would still be the sum of inside and outside payments, while incomes would be the inside payments alone. This destroys the Socialist contention that Profit is the root of economic evils, and Professor Soddy's contention that it is Interest which occupies that position.

A statement of Professor Bowley's confirms the truth of the Douglas analysis. In an article contributed to the Glasgow Herald in 1921 he wrote:

"National income is equal to the total value of goods and services produced or rendered in the United Kingdom, together with interest, etc., from abroad (less payments), the expense of maintaining capital being deducted." Leaving out payments from and to abroad as merely complicating factors, the statement can be re-written: National income is equal to the total value of goods and services produced or rendered in the United Kingdom, the expense of maintaining capital being deducted. But as prices include the expense of maintaining capital it is evident that the nation's total income is insufficient to buy the nation's total product.

## II.

This difference between total prices and total incomes has far-reaching consequences. It means that there is always a surplus of goods which cannot be bought with the people's income. The goods forming the surplus must, therefore, either be goods for capital development or goods for export; and the banks must create credits, additional to the people's income, to carry them, otherwise production will slow down, spreading bankruptcy and unemployment in an ever-widening circle until the surplus can be absorbed.

Capital development has the effect of displacing labour. If it does not do so it represents wasted effort. Two quotations, one from a speech by Mr. James John Davis, American Secretary of Labour, and the other from a statement by Mr. Ethelbert Stewart, Commissioner of Labour Statistics at Washington, illustrate this effect. Mr. Davis said :

You can make all the boots and shoes needed annually in America in about six months, and you can blow all the window-glass needed in America in seventeen days. You can dig all the coal necessary in six months with the men now in the industry. Because of the increase in population in the last eight or ten years it now should take 140 men to supply the needs of the country where 100 could do so. Instead of that, and in spite of our having 20,000,000 more people, the needs of the country are fully supplied with 7 per cent. fewer workers than in 1919.

Mr. Stewart said:—

Every machine that is built to do the work of four men throws three out of work. Of course, new industries

are created and production increased to absorb part of the surplus labour, but sooner or later we will reach saturation point. .Whether we have reached that point now will be determined by the middle of April, and if we have reached it, there is only one solution, shorter working hours. Anything else will be suicidal.

Displacing labour means less money distributed as wages, and therefore a lessened demand for goods in the home market. A home market which thus tends constantly to contract, by reason of this displacement of labour, combined with an output which tends constantly to increase, as the direct result of capital development, are conditions which are guaranteed to convert the most inoffensive and peace-loving nation into an aggressive seeker of foreign markets.

Now the “foreign” markets of the world are just home markets looked at from a different angle: they are not additional markets. France, Germany, and America are foreign markets to us in Britain; but to their own inhabitants they are home markets and we are a foreign market. So If the world’s home markets cannot absorb all the goods produced—and we have seen that they cannot—neither can its foreign markets, since they are the same markets. None of the nations now jostling each other in the attempt to capture trade realises that yet. All they are aware of is that they must get markets by hook or by crook, or go under. To that fact can be traced most of the international antagonisms, imperial expansions, colony-grabbing, concession-hunting, exploitation of native races, etc. Economic compulsion, and not abnormal wickedness or greed, is the driving force behind all these activities. Foreign policy is simply an extension of home policy, and is concerned with the securing of markets abroad in order to provide employment at home.

As things are, one nation can only expand its foreign market at the expense of other nations; and, as an expanding market is a matter of life and death for all of them, the end of the scramble is, clearly, war.

War, in our day, whatever it may have been due to in times past, is an outcome of the efforts of industrial nations to avert excessive unemployment—since that endangers their existence.

In earlier times the object of war was to deprive the foreigner of his wealth; nowadays it is to force wealth on him—by way of sale, of course. The impulse is not a generous one: nations have not yet become so altruistic as all that. It is only that their sense of real values has been perverted by a faulty financial system. So perverted is it that the more they give away (exports), and the less they get (imports), they call a favourable balance of trade!

War is forced on the nations by economic conditions. Their peoples must live; and to live they must find employment, since, as things are, incomes are only distributed in return for, or in connection with, work done. If men are unemployed they are cut off from the means to live; and, if they are unemployed long, their thoughts turn inevitably to revolution.

To prevent revolution and the disruption of the State, industrial nations must perforce pursue the search for markets, even at the risk of war. Whether war does result in the capture of new markets or not, it does solve the unemployment problem, very thoroughly, if only temporarily.

So, when a nation is faced with the alternatives, revolution or war, it of necessity chooses the latter—if it has a choice—as the lesser evil.

War cures unemployment by providing millions of men with jobs in the army and navy; and the rest of the nation is kept busy supplying them with munitions. Credit may be difficult to get in peace time; but in time of war it flows like water, ensuring plenty of money to spend. Plenty of money to spend means a ready sale for goods, and rising prices; and what is not sold for peaceful consumption is blown into the air or otherwise destroyed. Production is at a maximum; but the market never becomes overstocked.

Industrial nations can imagine no higher state of bliss than that—a country crammed full of mills, factories and workshops, working night and day turning out goods, any kind of goods, for a market that never becomes overstocked. So long as incomes are being distributed in connection with the work done, they regard their activity as wealth production, although it may just as easily be waste, as it is in the case of war-production generally.

War production is not all waste, however; for in order to keep pace with the colossal destruction of a modern war, the productive machine has to be brought to a very high pitch of efficiency. War has thus a productive as well as a destructive side; and if the financial system were properly run, the nation would be credited with the capital values created—the new plant and machinery brought into being in connection with war production—as well as be debited with the cost of everything with the cost of everything destroyed; for the cost of the new plant is included in the price of the goods consumed or destroyed, and is paid for by the general body of consumers and taxpayers, and ought, therefore, to be regarded as their possession. Instead of which a debt, the National Debt, is manufactured against them by the banks, working through the Government—or rather, the Treasury—in respect of it.

That these capital values, or their equivalent in purchasing power (money), do not become the consumers' and taxpayers' possession is part of the indictment against the present system, and explains why it is breaking down.

### III.

We have seen that the difference between total prices and total incomes leads to revolution or war. The next thing to consider is how the difference is caused. It is caused by the unscientific way in which credit is issued and recalled by the bank, together with the absence of control over absence of control over selling prices.

The organisation of credit is one of the greatest achievements of our age. Daniel Webster, the eminent American jurist and statesman said: "Credit is the vital air of modern commerce. It has done more, a thousand times, to enrich nations than all the mines of all the world." And he is right, even although the world's riches exist as yet mainly in a potential form, and have never



been actualised to any great extent. The important matter is that they can be actualised now, almost at a moment's notice.

If credit had not been organised the world could never have been organised for large-scale production, or steam and electricity been substituted for human energy as the motive power in industry; and it is only because the burden of toil has been or can be, transferred from the backs of men to the backs of machines—as Douglas puts it—that emancipation in any real sense is to-day a possibility and not a dream.

What is credit? There are two kinds—Real Credit and Financial Credit.

Real Credit has been defined by Douglas as the capacity of a community with its plant, culture, and labour, to deliver goods and services. The whole community is embraced within the scope of its meaning, not the so-called workers only.

Financial Credit is the instrument for setting Real Credit in motion and converting it into actual goods and services, and for distributing them where they are required. It has been well called the lifeblood of society, and performing so all-important a function it should be under the control of society; but at present it is privately owned and controlled.

Since Financial Credit is so vital a thing, let us see how it is created, and study its effects. For our present purpose money and credit may be regarded as one and the same thing. They are interchangeable. One authority, R. G. Hawtrey, says in his book *Currency and Credit*: “Credit is often said to be a substitute for money. It would be just as accurate to say that money is a substitute for credit.” “The banks undertake to transform cash into credit and credit into cash at the choice of their customers: they themselves claim no say in the matter.”

In another place he says: : “Practically all chasing power comes into existence in the form of credit and through it may be transmuted into cash in its passage through the hands either of poor men who have no banking account, or of rich men who require pocket-money, it resumes the form of credit to be extinguished.”

Mr. Reginald McKenna, chairman of the Midland Bank, used words to the same effect when addressing the shareholders of that bank in 1924. “The amount of money in existence,” he said, “varies only with the action of the banks in increasing or diminishing deposits. We know how that is effected. Every bank loan and every bank purchase of securities creates a deposit, and every repayment of a bank loan and every bank sale destroys one.”

Hawtrey says further that, “Credit originates in production and is extinguished in consumption”; and, referring to the creation of credit, that “The banker creates the means of payment out of nothing.”

It is a common belief that when bankers lend money it is their customers' deposits they are lending. That is a delusion, held by Bernard Shaw among others. One of the greatest authorities

on banking, H. D. Macleod, tells us in his book, *The Theory and Practice of Banking*, that

The essential and distinctive feature of a 'bank' and a 'banker' is to create and issue credit payable on demand and this credit is intended to be put into circulation and serve all the purposes of money. A bank, therefore, is not an office for borrowing and lending money; but it is a manufactory of credit.... In the language of banking, a deposit and an issue are the same thing.... It is commonly supposed that a banker's profit consists in the difference between the interest he pays for the money he borrows, and the interest he charges for the money he lends. The fact is, that a banker's profits consist exclusively in the profits he can make by creating and issuing credit in excess of the specie he holds in reserve. A bank which issues credit only in exchange for money, never made, and can by no possibility make, profits. It only begins to make profits when it creates and issues credit in exchange for debts payable at a future time.

The points to be noted particularly are:

- (1) Practically all purchasing power comes into existence in the form of a bank credit.
- (2) Bank credits are created by the banks out of nothing.
- (3) They originate in production, and are extinguished in consumption.

All the credit that the community gets and converts into money and spends or saves is manufactured by the banks out of nothing. It is lent to manufacturers, dealers, and others who require it for their business, and is circulated by them throughout the community. Some of it goes direct into the pockets of consumers, as wages, salaries, or dividends; and, in being spent, it transfers goods from the ultimate vendor or retailer to the consumer—that is its function. This we will call "consumer credit," and the costs it creates "consumer costs"—that is, costs representing purchasing power in the consumer's hands, costs he can pay.

The rest of the credit issued is used to transfer goods, not from retailer to consumer, but from one business firm to another. This we will call "business credit," and the costs it creates "business costs."

These two classes of credit and costs coincide with the inside and outside payments of the analysis in Chapter 1.

The distinction is purely one of function, and is made for elucidation purposes. So far as the business world is concerned it is not perceived to exist. If it was the economic problem would probably have been solved long ago. Any bank credit will perform either function.

Business credits, as defined, are nobody's income—that is the importance of the distinction made above—so business costs are costs the consumer has no money to meet and cannot therefore pay.

Business credits are mere replacement credits, replacing earlier issues of consumer credit which have been spent and extinguished; for what is a consumer-cost at one stage of the productive process becomes a business-cost at all subsequent stages.

It is important to note that all money or credit acts in two different directions at one and the same time. It creates new costs for the borrowers, and, in being spent, pays off old ones. By this double action the cost of what is consumed is transferred and re-embodied in the costs of what is produced; but—and this is the whole economic problem in a nutshell—the money, or credit, so spent, in liquidating those earlier costs, is repaid to the banks and cancelled, while the production costs it has created remain in existence practically for ever, by the constant repetition of the re-embodiment process.

Business credits perform a useful and necessary function in transferring goods from point to point within the productive system, and so building up stocks and capital (the machinery of production); but their usefulness is wholly nullified by the fact that not being anybody's income, they cannot transfer goods out of the system for the personal benefit of the community. This tends constantly to bring the system to a standstill. They create costs which must appear in retail prices; but they cannot bridge the gap between retailer and consumer.

This explains why all the discoveries and inventions of the last hundred years or so have resulted in a tremendous development of productive power which is not reflected in a corresponding increase in the general well-being—why, for instance, slums continue to exist side by side with the means to wipe them out of existence.

All social advance is held back by the fact that the whole body of production costs has to be met out of the consumer's income; and as the two things are incommensurate, a mere trickle of goods reaches him. If any change is to take place, if the trickle is to become a flow proportionate to the productive power potentially present, the consumer's income must be increased; but the increase must come from some where outside the productive system: it must not appear anywhere as a cost, or costs will rise in proportion as the consumer's income is increased, and no more goods will reach him. In other words, it must be a free issue of money. This point will be dealt with later.

The fact that all costs are unloaded ultimately on the consumer may seem to contradict what has been said: may seem to show that he has the money to meet them. It does not: all it shows is that the rate of liquidation is the rate at which he gets money to spend, not the rate at which costs mount up.

#### IV.

The outward flow of credit from the banks to consumers represents what we may call the flow of production. The inward flow from the consumers to the banks represents the flow of consumption.

Now, it is the banks' constant endeavour to recover their credits as soon as possible after they are

issued. Most of them are recovered inside a few weeks, and three months is about the extreme limit of time allowed for repayment.

Bearing in mind that the outward flow of credit—i.e., loans—represents production, and the inward flow—i.e., repayment of loans—represents consumption, it will readily be understood that if the outward and inward rates of flow, to and from consumers, are approximately equal, if credit flows back to the banks as fast as it is issued—as it does—it should mean that we are consuming all classes of goods as fast as we produced them. It should mean not only that we were consuming food, clothing, comforts, and luxuries as fast as we produced them, but also consuming our capital, our plant and machinery, buildings, roads and railways, harbours and ships, etc., since these things were all brought into existence by means of credit issues; but we know that that is not happening. Most of the goods of the latter class—capital goods—last for many years before being used up or scrapped.

What actually happens is that the money or credit received by consumers in connection with cycles of production not yet completed—that is, not yet materialised in final (consumers') commodities—is taken from them via the prices charged for goods belonging to cycles which are completed.

Although this means that the public are being robbed of purchasing power which properly belongs to and should be reserved for future purchases, it does not necessarily mean that profiteering is being indulged in: it only means that consumer credit is being used to pay off business costs, the major part of prices in general being business-costs. It is only by draining the public of what should be their reserves that current costs can be met and the system kept running; but the running grows increasingly difficult by reason of the draining process as the proportion of business-costs in general prices increases.

If anyone doubts that credit flows back to the banks as fast as it is issued, he has only to ask himself how much he still holds of his last week's wages, last month's salary, or last half-year's dividends, to realise how fast money slips from him. And as with him so with everybody else; and the place it slips to is the banks, to cancel bank loans.

It is necessary for the bankers' plans that current prices should rise in direct ratio to the volume of credits issued, otherwise they would be unable to recover their loans within the narrow limits of time they allow for repayment. At one time their safety depended on quick repayment; and if prices did not rise, money—legal tender money—did not flow into their tills fast enough for their needs, and being unable to meet their obligations they had to suspend payment. That danger hardly exists to-day. In an emergency the Government would authorise the creation of as much legal tender money as they cared to ask for.

The profiteer's plunder is only a drop in the bucket; but he is a very useful ally of the banks; for the faster money can be squeezed out of the public and returned to the banks the stronger do the latter consider their position, and the men who can squeeze it out fastest stand highest in their

regard. The prosperity of a country, however, is not to be measured by the prosperity of its banks; the two things do not run parallel.

The only way in which outstanding issues of credit can be cancelled, short of bringing industry to a complete standstill, is by the creation of other and larger issues, larger because they have to cover the profits of the earlier borrowers and the interest on their borrowings; and as the creation of credit is a bank monopoly it follows that the community can only rid itself of one burden of bank debt by saddling itself with another and larger burden.

Now, money is never borrowed except to be spent; but, as it must subsequently be repaid, the borrowers have to spend it in producing, or inducing the production of, something that can be sold; which means that the harder the community works and the more it produces the deeper it goes in debt to the banks.

If the banks lend freely trade booms. If they withhold loans, as they do from time to time as a matter of policy, it collapses, and the less favourably situated members of the industrial community are forced into bankruptcy, or are called on by the banks to reduce their capital, and perhaps dismiss capable and efficient directors—bank nominees being installed in their place—which is just as bad.

The withholding of loans may have in view the reduction of prices—a laudable object in itself if properly contrived—or it may be for the less admirable purpose of acquiring valuable assets at the price of an old song. Both of these things result when the banks curtail credit issues, be the motive behind their action good or bad.

V.

The effect of credit issues on prices is the next thing to be considered; and it is necessary to distinguish new credits from credits which merely replace earlier issues which have been recalled and cancelled. Hawtrey, in *Currency and Credit*, says: “New credits, as distinguished from those created merely in replacement of old ones, are created to pay the profits, remuneration, interest, etc., of those who contribute, either by their personal services or by the use of their property, to production.”

As new credit issues are created in advance of the production they are to finance, some time, perhaps a long time, may elapse before the finished product, in a form available for the final consumer, is ready for sale. But as they are operative as purchasing power immediately they are created they increase the supply of purchasing power relatively to the supply of goods for sale.

Now, the effect of increasing the supply of purchasing power, without simultaneously increasing the supply of goods for sale, is to raise current prices; and that reduces the value of the individual £1. As things are, every member of the community possessed of money loses a certain amount of

purchasing power with every new credit created. His stock of money may be undiminished, but it cannot buy as much as before, or as much as it ought.

It may be remarked in passing that, apart from the question of its legality, a bank credit, being created out of nothing, differs in no essential respect from counterfeit money: its effect is almost precisely the same. It is arguable, indeed, that, of the two, counterfeit money, if it remain in circulation undetected and is not on too large a scale, is the less harmful to the general community; for being invariably spent on personal consumption, it stimulates the production of consumable goods and so increases the general well-being almost to the full extent of the money spent, without creating any new debt in the process. Whereas bank credits are all debt, and, being spent on production of which only a fraction is for personal consumption, the general well-being benefits only to a fractional extent.

A story taken from an American popular magazine and retold in *Public Welfare*, in a condensed version, some years ago, is in place here:

I've forgotten the hero's name: so let me call him Joe. Well, Joe is caught making corn-whisky. This is in a remote American settlement. He is fined 100 dollars by the "Court" (who impound and, incidentally, imbibe the said whisky). As he has no money, the "judge" lends him a few dollars, and tells him to go into the next settlement and gamble with it so as to win his fine. On arriving there, Joe finds himself ranged with a crowd of others round a pea-and-thimble "banker." By using the smart device of dabbing a little gum on his pea, Joe wins 100 dollars. The astonished banker searches himself laboriously, and finally fishes out a 100-dollar bill, which he disconsolately tosses to Joe.

On his way back to the court-house Joe meets a pal to whom the court was due to pay 100 dollars. So he says, "Come along with me and bring your bill; I'm paying the court 100 dollars." "Righto!" assents he.

Arrived there, Joe pays in the money. His pal then goes in and gets it from the Clerk. But on the doorstep the Clerk re-appears in his private capacity from the side entrance, and demands the 100 dollars from Joe's pal in settlement of a debt. Before the Clerk has gone ten yards away he meets a creditor of his for the same amount, and pays him with the 100-dollar note. This rather intrigues Joe, and he sets himself to watch what happens further to this piece of paper. Well, during the rest of the day he watches it gyrate round the settlement effecting settlements right and left, until it changed hands about one hundred and thirty times. Finally, Joe sees it come into the hands of someone who owes him 100 dollars. So when Joe gets back to his shanty in the evening he has this much-travelled note in his keeping again.

During the night he is rudely awakened to look up the barrel of a revolver held by the pea-and-thimble banker. "Where's that 100-dollar note?" demands the intruder. "Up in that tobacco jar," answers Joe, accepting the inevitable. "Thanks," says the banker, extracting it. "Now, exchange ain't no robbery; so how about these?" continues he, offering Joe four 25-dollar gold pieces. Then going to the fire, tearing up the note, and dropping the pieces in, he remarks to his amazed companion: "I've been looking for you most of the day, and was scared of my life you'd pass it on to someone. It's a counterfeit!"

When Joe snuggled down to resume his slumber after an unnaturally long cogitation, this curt commentary took wing from his pillow: "Wall, if that don't beat Hell!"

Moral (1). Bad money can discharge debts as effectively as good, so long as it is accepted.

Moral (2). It is general acceptance which creates the value of any money, not any inherent property it may possess, whether it be of gold or paper, or be created by the State, banks, or out-and-out rogues.

New credits, therefore, are created at the public's expense. Properly regarded, it is the public that advances them, not the banks; but as the latter do the book-keeping, they are regarded, and regard themselves, as the lenders.

But the people for whom these credits are created only get them as loans; and as it is the nature of all loans that they must be repaid, the borrowers, after spending what they have borrowed, have to recover the amount from somewhere in order to repay the banks. The only way in which they can recover it is through prices, by the sale of their goods. The spending of the borrowed credits (created out of nothing) had an inflationary effect on prices which robbed the public of purchasing power equal to the amount of the loans. The goods bought were in effect stolen from the public, unwittingly, and without evil intent, of course, no return being made for what was taken. The subsequent sale of the borrowed, or stolen, goods, now probably increased in value by the labour of the borrower or his employees, means that the amount of the loans has been taken from the public a second time; but this time an equivalent in goods is given in return.

Every new credit, therefore, affects prices twice over, once at the time it is created, borrowed, and spent, and a second time when the goods it was instrumental in making are sold.

It is a distribution of income once; but it creates a cost which remains in prices as a permanent charge on industry, borne by some business or other, until a bankruptcy, or a forced sale under cost or a writing down of capital, blots it out of the community's book of costs.

Every cost has, as it were, two lives— an ephemeral life as somebody's income, and an eternal life as nobody's income; and, as the ephemeral is always passing into the eternal, the level of prices is always rising relatively to the level of incomes; and this causes economic instability, poverty, and unemployment, which, again, leads to revolution or war, as we have seen.

## VI.

To put it shortly, the general effect of the existing system is to abstract present purchasing power from the consuming public, and devote it to further production; but the people from whom the purchasing power is taken are given no share in the new production.

Theoretically, more production should result in a greater distribution of goods for everybody; but the theory does not work out in practice, because the process of abstraction is continuous, the creation of new credits being continuous, and because the financial system makes no provision for restoring to its rightful owners the purchasing power abstracted.

The purchasing power filched from the public is devoted to capital production, or good for export; first, because, being filched, it is no longer the consumer's, consequently there is no sense in producing with it the goods he wants, since he could not buy them. Second, because, being issued as loans to producers, the goods produced with it should preferably be of such a type as will form good security for the loans. Capital goods—buildings, plant, machinery, etc.—have good security value in the eyes of the banks; goods for personal use or consumption have little or none.

Owing to this effect of the banking system being constant in its operation, through the lack of control over prices, capital development proceeds at the expense of consumable goods, the kind of goods that we, as individuals, need or desire; and it should hardly be necessary to state that the satisfaction of personal needs is the sole justification for production of any kind. We produce a superfluity of factories and workshops, plant and machinery, rather than of the essentials and comforts of life. We pile up mountains of capital which yield us only the merest mouse of consumable goods in return.

Factories, plant, and machinery, are indispensable in the modern world, and, properly used, may be the means of making us economically free; but their production must be kept in a sane relation to the production of goods for personal use or enjoyment, or the whole purpose of industry is frustrated. And it should be evident to the most casual observer that the purpose of industry is being frustrated to-day.

This constant filching of purchasing power by the creation of new credits keeps the bulk of the population round about the poverty line. Poverty forces them to compete with one another for a place in the productive system, money being, at present, only distributed through the channels of production, and living being possible in civilised countries only if one is possessed of money. This competition keeps their remuneration low. They are told that if they would only work harder there would be plenty of goods for everybody. It sounds plausible; but the fallacy lies in the fact that the goods they are asked to produce are not the class of goods they themselves want. They want food, clothing, houses, comforts and luxuries; they are set instead to develop capital, to build or make ships, railways, roads, factories, plant and machinery—good things, all of them, in due relation to other things, if rightly used—but not themselves capable of satisfying any real human want or need—assuming that the producers could buy all they produced, which we have seen they cannot. It is time enough to multiply productive plants when the existing plants show signs of being unable to cope with the real demands of consumers, not before.

It should not be necessary to have to state the obvious truth that the only way to increase the supply of necessaries, comforts, and luxuries is to set about producing more of these things, not to produce something else; but economists are so hypnotised by the conditions imposed on industry by bankers that few of them are capable of seeing an obvious truth.

The promise of more goods in the future is dangled before the workers to keep them working; but the promise is not fulfilled, for the reason above stated—the constant filching of purchasing



power by the creation of new credits—and its effectiveness as an incentive to labour is failing in consequence.

Capital development, under the present system, impoverishes the country at home by displacing men in industry and keeping their remuneration low, thereby reducing their spending power and so curtailing the home market for goods; and it endangers the country abroad by compelling it to seek an ever-expanding foreign market capable of absorbing not only the surplus production which cannot be bought by the home population—and this surplus increases as the use of machinery increases—but also of a further amount of production—the manufacture of which will give employment to the men displaced by the machinery.

So it is true, in a sense, to say that Capitalism is the enemy; but it is Capitalism misdirected by Finance. The Socialist picture of the capitalist as a monster who delights in grinding the faces of the poor is a mere caricature. The so-called Capitalist—the employer of labour—has no objection to paying high wages so long as it does not hinder him from selling his goods quickly and at a remunerative price. That was proved over and over again during the war. The more contented he can make his employees the better for himself; and, in actual fact, the difference between the wages paid by the best employers and the worst is so small as to be hardly worth taking notice of. All employers are at the mercy of forces outside their control. Control resides in Finance: the financier occupies the ultimate seat of power. Governments merely register his decrees, or else concern themselves with indifferent matters that leave his power unaffected.

The capitalist employer is also quite indifferent who gets his goods. Rich and poor, friend and foe, are all alike to him in this respect. His one concern is that he shall recover his costs in full, and make a profit of some sort, for the simple reason that, if he does not, he goes out of business and ceases to function as an economic unit. Pay him his costs and he becomes quite indifferent who gets his goods, or whether they are blown into smithereens or sunk to the bottom of the sea. Probably he would prefer that they should be put to some good use; but so long as the size of his income depends on the magnitude of his sales, and so long as the financial system makes it more difficult for him to sell his goods than to make them, so long will he welcome any form of destruction or waste that increases the demand for his goods—provided he is paid for them. He would be more than human if he did not.

Similarly with the worker. So long as work is his sole road to an income, and so long as new machinery keeps on reducing the need for his labour, so long will every form of waste and destruction that creates a demand for work be welcome to him also.

Whoever pays the capitalist's costs gets his goods. If the community likes to do it, as it ought, he will, with the greatest goodwill in the world, pour out necessities and luxuries in astonishing quantities, sufficient to make everybody rich, and as fast as we like to give him orders.

The employer of labour is nowadays little more than a kind of manager or superintendent, who makes his living by carrying out a policy dictated for him by his master, Finance. He is probably

unconscious of the fact, and may assert in good faith that his policy is his own. It may seem so; but two things must be borne in mind: (1) Men, whatever their tastes or inclinations, drift inevitably into those businesses or occupations in which money be it little or much, can be made, and out of those in which it cannot. Which of these classes a particular business is in depends entirely on whether the banks are or are not directing money or credit into channels favourable to that business. (2) A man, when in business, has to frame his policy according to what he thinks will pay; and that again is determined by the direction and volume of the flow of credit.

You may, by political or other means, dispossess the employer of the capital he calls his own without changing in the slightest degree the policy he is engaged in furthering. You may nationalise industry, you may nationalise banking, even; but so long as the canons of present-day finance are adhered to the evils usually identified with Capitalism will remain; and the canon of present-day finance that is responsible for all the trouble is the one which ordains that all the costs of production shall be recovered in prices.

That is a business and financial axiom which must be challenged. At no time is there enough money in the consumer's hands to pay all costs in full since these are largely made up of past spendings. If we accept the axiom we must logically accept all that flows from it—bad trade, labour troubles, unemployment, poverty, and war—all the network of social and political problems now perplexing and alarming the world; for it is the primary cause of them all.

Hard work, goodwill, economy, and saving—presumed remedies held in high esteem by Press and Parliament—are powerless to cure what is, after all, an error in book-keeping; for all finance is merely book-keeping. Incorrect book entries upset the balance between prices and purchasing power; and corrective book entries alone can restore it, together, of course, with the financial operations these entries will stand for.

## VII.

If the diagnosis has been followed and understood, the remedy can easily be guessed. Either incomes must be increased without increasing prices, or prices must be reduced without reducing incomes, or the two operations may be combined.

If more money be put into circulation in the ordinary way, prices, being uncontrolled, will certainly rise, and the problem will be as far from solution as ever; so it can be laid down as a first essential that selling prices must be regulated; but they must be regulated on some scientific principle. What is that principle? This brings us to the problem of the Just Price; but, before discussing it, it is desirable to remove a prejudice which is sure to arise in people's minds—particularly if they make their living by selling something; and who does not?—when regulation of prices is mentioned. Payment of the producers' costs and recovery of the amount in prices from consumers are two things which can be entirely dissociated from each other; and in all that is here said about regulation of prices it must be understood that the regulation is to take place

after the seller's costs and profits have been paid. It would not affect his pocket in any way except for the better, by making sure that the public have the money to buy his goods, and so making it easier for him to do business. It would not even be necessary to fix a rate of profit, although, in time, a standard rate would probably crystallise out; for, as competition would go on as before, between man and man, profits –and, incidentally, wages and salaries–would be kept within reasonable bounds.

The Just Price is the pivot of a sound economic system, balancing the outward and inward flow of credit with the production and consumption of goods; and it cannot be determined by the higgling of the market, the present method of determining prices. It is a matter for scientific calculation based on recorded statistics; but quite a simple calculation for all that.

What is the Just Price? Civilisations have gone down through failing to find the true answer to that question. The late war was caused by the same failure; and the peace which has succeeded it—a peace of exhaustion only—is merely a breathing space before a more deadly war, unless the true answer be found and acted upon; for modern wars arise because the present financial system cannot distribute the wealth the world is so skillful at producing; and the Just Price is the solution of that difficulty.

The Just Price is not the amount of money an article will fetch, neither is it the net cost price as cost price is at present reckoned. If money did not exist it would be easy to see that the real cost of producing anything is the amount of energy, human and mechanical (or solar, as Douglas expresses it) expended or used up in the process; and this is measured by the quantity of goods and materials consumed in producing it. In short, the cost of production is consumption; so, if the money cost of the community's production and consumption is known, the Just Selling Price of any article is easily found.

It is the same fraction of its cost price as the nation's total consumption is of its total production, reckoned in terms of their cost price.

In other words—Cost Price should be to Selling Price as the Total National Production is to the Total National Consumption.

(Cost Price, as here used, includes the seller's profit: Total National Consumption includes all depreciation or decreases of capital; and Total National Production includes all appreciation or increases of it.)

It may sound complicated: it is really simple.

As the sum of the nation's capital assets and of goods produced or in course of production; in a particular period (the denominator of the price factor), is always greater than the sum of all goods sold for final use or consumption in the same period (the numerator) and increases with every new discovery and invention, the Just Selling Price should be always, and increasingly,

less than cost price.

That is to say, if it were found in any period that the cost price of all goods produced, including the money value of all the nation's plant and machinery, raw materials, etc., amounted to four times the cost price of all goods actually sold to final consumers in the same period, the Just Selling Price of any article for that period would be a quarter of its cost price. Thus if a suit of clothes, or a dress, cost £8 to produce, it would be sold to the consumer for £2. If a house cost £1,000 to build; it would be sold for £250 to the man who bought it to live in; and so on.

The meaning of that is that £3 in every £4 of the retail sales for that period represents costs which have been passed on and re-embodied in the cost of other goods to be sold in the future; and if the amount is not restored to the purchasers by the banks injustice will be done, and there will be a shortage of money, and future sales must decline.

For it must be remembered that the money that liquidates costs is itself a cost somewhere; but, as things are, it is extinguished in the act of liquidation, and is not therefore available in the future to meet the body of costs it has helped to create.

It is an error to think of production and consumption as two entirely different things; and while they are so regarded a clear view of the price problem cannot be obtained. Strictly speaking, there is no such thing as production and consumption: so far as we know, the amount of matter in existence remains constant. What we designate by these names are merely certain changes that we bring about in the previously existing states of matter. The "production" of a ship, for instance, implies the "consumption" of steel and iron, wood, and other substances. It also, in respect of the wages and salaries paid to the people who helped to build it, involves the destruction—or consumption, or depreciation—of considerable amounts of food, clothing, comforts and luxuries. But if the cost of the goods consumed—the metal and wood, bread and butter, shirts and socks, etc.—appears in the final price of the ship, as it does, and if the money spent on these things is extinguished in being spent, as we know it is, where is the money to buy the ship to come from? And why should the public, in paying for the ship—by way of freights and fares—be charged up with the cost of goods they themselves have paid for and consumed?

The result of regulating prices in the way proposed would be that the community would always have sufficient money in its pockets and bank accounts, not only to buy all it actually produced, but to keep on offering inducements to producers to continue producing as long as any economic want remained unsatisfied. The price formula reduces prices to the level at which the community's unsold goods and capital assets would balance the money it had to spend, thus ensuring that there would be no artificial barrier to the effective distribution of goods. Thus, along with their production, the market for them would be built up.

It is necessary to sell under cost, not only to do justice to the consumer, but also to enable producers to get their goods sold readily, and keep the industrial machine running smoothly.

It is only necessary to adjust retail or final prices, since all intermediate costs, however incurred, are passed on and included in retail prices.

The price-regulating formula is the idea of a genius; and the day of its adoption will be a red-letter day in the history of the world. By its use, if production gained on consumption—as it normally does if all financial hindrances are removed—the resulting fall in prices to consumers would be at one and the same time an intimation to the producer that he might slacken his efforts and take a holiday, an invitation to the consumer to consume more, and the equivalent of a gift of money enabling him to do so.

If, on the other hand, consumption gained on production, it would manifest itself to all by a rise in prices to consumers. This would automatically slow down demand for the time being, but only for the time being; for it would also inform the producer that fresh productive effort was called for, and being himself a consumer, the loss of money caused by the rise in prices would stimulate him to make it and so earn more.

Many people find it difficult to grasp the idea that underlines this proposal to sell under cost. It seems preposterous to them; but only because they take the present costing system on trust without troubling to understand what it means.

It may appear clearer to them if they bear in mind the fact that, normally, the nation's power to produce is very much greater than its power to consume. Even during the war, when consumption and destruction together reached a higher level than they ever did before, or have since, production, except in the early days, before the productive machine got thoroughly going, was so easily able to cope with all needs that it was years after the Armistice before the surplus production was all absorbed if indeed, it is all absorbed now.

For instance, a house may be built in a year or less and last for fifty or a hundred years. A suit of clothes, or a pair of boots, made in a few days, or a few hours—or even minutes, under mass-production methods—will last for months, or it may be years, and so on. That means that we produce Real Credit—or wealth, if you like—at a faster rate than we consume or destroy it; and as our Financial Credit, or money, ought to be an exact reflection of our Real Credit, it is clear that money ought to be distributed, via costs, as income to the community during the course of production, at a faster rate than it should be taken back again, via prices, during the course of consumption, if the financial book-keeping is to give a true record of our production and consumption of Real Credit.

The difference that exists at present between the aggregate of prices and the aggregate of incomes (or consumer purchasing power) represents a large reserve of Real Credit, or power to produce wealth upon which the community is debarred from drawing, owing to the faults of the financial system, but upon which it could draw immediately if the necessary price-regulating arrangements were made and the necessary financial tokens (money) were distributed to the individuals composing it.

Selling under cost in the way described would not deprive anyone of a farthing of his income. The adjustment in prices corrects a flaw in the financial book-keeping which keeps prices above incomes and so hinders the distribution of goods. There is no question of penalising anybody or making him poor: that is quite unnecessary. The whole object is to make everybody rich, not a few only.

#### VIII.

To summarise:

- (1) The primary cause of the world's troubles is the fact that the aggregate of prices is always greater than the aggregate of incomes.
- (2) The cause of the difference is the manner in which credit is issued and recalled, and its effect in raising prices if they are not scientifically regulated.
- (3) The effect of the difference is war or starvation, either or both of which will destroy civilisation unless the financial system be reformed.
- (4) The nature of the reform must be to make the nation's money balance the money value of its capital assets and goods making and for sale. This involves issuing credit to consumers independently of costs, also price-regulation and selling under cost.

The effect of the remedy would be:

- (1) Prices to consumers would fall immediately to a fraction of their present height, and would continue to fall indefinitely; while incomes, instead of falling, would rise progressively with every advance in applied knowledge.
- (2) Whatever the community produced it would be able to pay for; consequently, trade and industry could go full steam ahead as long as any economic want remained unsatisfied. Cycles of good and bad trade would disappear, since human wants, however much they may change, do not wax and wane in conformity with such cycles.
- (3) Poverty would be abolished; and all the human energy, misdirected or bottled-up as the result of poverty, would find natural outlets, to the great benefit of the national health.
- (4) Foreign trade would lose its competitive character; so the main cause of war would cease to exist. We should not require foreign markets—that is, there would be no compulsion on us to hunt for buyers abroad in order to keep things running, since we should have all the buyers we require at home; but, having acquired a liking for numerous foreign commodities, there is no reason why we should not indulge it; and, of course, there would have to be a reciprocal export of goods to pay for them. The real object of foreign trade is, as *THE NEW AGE* says, to diversify consumption.
- (5) All fresh capital being provided by the community, via the banks, and price-regulation being a communal function, the power of the so-called capitalist to exploit either his employees or the consumer, and his temptation to do so, would be destroyed. Strikes and lockouts would become

things of the past; and the distinctions between Capital and Labour would ere long become meaningless and be forgotten.

(6) The human race would be lifted on to a higher plane altogether, and would begin to taste a lasting freedom and peace for the first time in history.

It is an indispensable part of the reform proposed that money, equal in amount to the value of all new capital—or capital values—created, should be distributed free and equally, in the form of a social dividend, to everybody, as a right, and independently of what he may earn by any work he may do.

Of the right of every member of the community to an “unearned” income of this kind there can be no question. The productive machine is a communal creation, and the accumulated knowledge of centuries went to its making. It is not the creation of the men who run it to-day. (Their contribution, divested of all they have inherited from the past, is of no higher value than the Stone Age man’s.) And its productive power is so tremendous, if properly used, that it would be sheer insanity not to base public policy on these two undoubted facts. That is, we should pay the men who run the machine, and pay them well; but the surplus they produce over and above the value of their pay or earnings, profit or dividends, is an unearned increment which properly belongs to the whole community; and it should be distributed to everybody equally, without conditions or stipulations of any sort.

If we have a prejudice against unearned incomes we shall have to get over it; for the plain truth is that human labour is becoming of less and less importance every day as a factor in production; and, if human beings are not provided with unearned incomes, the bulk of the world’s inhabitants will soon have no claim to existence at all.

The possession of a private unearned income would make every man, woman, and child in the community independent, and able to face the future with equanimity. It would also put them in the strongest possible position to resist tyranny of all kinds. How many shameful and objectionable things are being done to-day by people who hate doing them simply because, lacking independent means, they cannot afford not to do them?

#### IX.

The remedy can be applied in several ways; but the principles outlined underlie them all. All that is needed for introducing it is a knowledge of the money value of the nation’s production and consumption, and of the individual’s consumption; and easy ways of arriving at these particulars can be found. Approximate accuracy will do to begin with; refined accountancy can come later.

If the banks were disinclined to introduce it themselves, the first step would be for Parliament to enact that on and after a certain date they must keep their books in accordance with the principles established by Douglas, and that, from the same date, the Government itself would regulate retail

prices on the basis of the statistics of that nation's production and consumption.

The financing of business would be done by the banks direct, as agents for the community, all manufacturers, dealers, and retailers being granted credits to pay their costs as they arose. No production to be sold under the price formula would be financed out of earnings.

Merely to illustrate the principles in action, let us picture the productive process, with goods passing through a succession of hands—A, B, C, D, E. . . B's borrowings would cancel A's borrowings (costs) and pay A's profit. C's would cancel B's and pay B's profit. D's would cancel C's; and so on.

If E were the retailer, his borrowings would have to be large enough to pay D's costs and profit, and E's own costs and profit. This latter provision is to ensure that when goods enter the retail market enough money to buy them has been distributed to the consuming public, of whom the retailer is one.

The consumer, on making a purchase, would pay the retailer the full price of the article bought, and would receive with it a voucher for the amount paid, as is usual now. These vouchers he would present to his bank for recording, and at suitable intervals of three, six, or twelve months he would be credited with the amount due to him, as discount on his purchases for the period, as determined by the Price Formula for that period.

The retailer, having already had his costs and profit paid by issues of credit, would repay the banks all he received from purchasers; but he would repay only as and when he made a sale. To make him repay at arbitrary dates, fixed independently of how his sales are going, is wholly unscientific, and forces him to rob the public whenever he can, besides throwing the whole economic system out of gear.

By this method the whole process of adjustment is carried through in the banks' books; and this makes for ease and simplicity of working; but there are other methods; and, as the British people pay little attention to theories unless they work out in practice, it is possible that some rougher and readier way would be adopted at the start.

X.

The promise this reform holds out for the human race is beyond calculation. It would not only put an end to labour troubles, and in so doing remove all fear of internal disruption; but it would also change international trade from being a struggle for markets terminating in war, and differing from war only in the nature of the weapons used, into a friendly exchange of superfluities, bringing advantage to all concerned, and doing harm to none.

With international trade established on a sound and friendly basis, all the probable causes of war



would disappear. Nations could quarrel as much as they liked—if they could find anything to quarrel about—but they would no longer endanger each other's existence. Wars are not bred of casual quarrels, but from the existence of some standing menace, and from the preparations made to ward it off.

The scheme of reform could be introduced within a few weeks of its adoption by the country. That is a sufficient answer to those who, like Ramsay MacDonald, contend that economic conditions can only be improved very gradually. It is not true. The Government has it in its power to solve the unemployment problem, reduce retail prices far below the 1914 level, and put everyone beyond the reach of want and well on the way to a lasting prosperity, within less than a year, if it cared to introduce this one measure of financial reform.

Needless to say, finance by itself, without real productive power behind it, can do nothing, being mere book-keeping; but the productive power is there all right, tremendous productive power: it is only waiting to be released. The war gave us a slight indication of what it can do, but only a very slight indication. The conditions have never been favourable for a proper test. But give people more purchasing power, and regulate prices in the way indicated, and you will see miracles happen.

Nevertheless, although the Douglas proposals would confer incalculable benefits on everybody in the country, by setting free on their behalf all this tremendous dammed-up productive power, they are opposed by two classes: ignorant people who have not the wit to understand them, and intelligent men who have, but who, being out for the acquisition of power, realise that their reign is over if the proposals are adopted.

If the British people were united on financial policy, no power on earth, in Wall Street or elsewhere, could prevent them from putting through this scheme of financial reform; but the present controllers see to it that people are not united. They play Capital off against Labour, and both off against the consumer; and there is little doubt that the influence behind most of the movements that separate people and keep them apart, politically and socially, is Finance. But for the evil influence it wields, the interests of Capital, Labour, and the consumer would be seen to be identical; and unless the three unite on the financial policy here recommended, and it would benefit them all, the outcome is bound to be a catastrophe.

Three facts stand out as the result of our enquiry :

- (1) Modern wars and revolutions arise from unstable economic conditions;
- (2) The cause of unstable economic conditions lies in the mechanism of finance, not in anything external to it;
- (3) No escape from revolution or war is possible until the defects in the mechanism are repaired. The existing system works with increasing difficulty, to an accompaniment of bankruptcy, unemployment, strikes, revolutions, and wars; and if it can be bolstered up for a little while

longer we shall witness the strange spectacle of a world starving in the midst of potential plenty, refusing to satisfy its desires because it has increased its productive capacity too much!

And each industrial nation will see some other as the cause of its troubles; for the failure of the home market will be traced to the failure of the foreign market and the wickedness of foreigners, rather than to its proper source in the defects of the credit and costing systems. And, since the loss of markets is for all of them, under present conditions, a matter of life and death, they will be driven into war again in spite of themselves, while having nothing but the best of good intentions in their hearts.

XI.

There have been times in the history of the world when some event or discovery has enabled the human race to take a great step forward. Major Douglas's discovery is of this type. It brings economic emancipation within our reach, if we can free our minds sufficiently from economic superstitions to understand and grasp what is offered.

What is emancipation? It is to be free to live without having to beg anyone's permission; to do what one wants to do, and to work all day at it if one is so inclined. To make one's living depend on the performance of some task which one has no power to reject is not freedom at all, whether it be performed for a private employer or the State.

Under modern conditions, real freedom can only come with the possession of a private income which no one has the power to withhold. Hard things have been said of the man who gets an income without having to work for it, but at heart everybody envies him. He is the only really free man in the community; but if Douglas's ideas were put into operation, everybody would become the possessor of a private income and reach the same happy state of freedom.

Where work is made the sole test of the right to an income, the worker is inevitably the puppet of the people who distribute incomes, be they private employers under Capitalism or public officials under Socialism.

The only sane policy is to set men free as fast as we can invent machines to supersede them, and to pay the whole community a social dividend equal to the value of the saving effected.

This does not necessarily mean that there would be less work done; probably there would be a great deal more. Men must expend their energy in some way, and the present system is constantly throwing up barriers—such as unemployment—to prevent their doing so in useful ways; but much of it would be work of a different kind; and there would be a great deal more play and recreation.

Most of the things we want to do are things nobody would pay us for doing. Who, for instance,

would pay us for studying music, literature, art, science, philosophy, or religion; or for cultivating a garden or indulging a taste for travel or golf. Nobody; yet, if emancipation means anything at all, it means setting men free to do these or similar things.

The reform suggested is not put forward as an alternative to Capitalism, but as an alternative to chaos. So long as the present system can provide the majority of people with a living of some sort, no alternative, however attractive, has much chance of being considered. But if it becomes obvious that the system is breaking down—and the manifest difficulty of providing employment and doing profitable business are two of the evidences that it is breaking down—the only alternative that has a chance of being successful is the one that can reconcile the greatest number of interests with the minimum of disturbance. The Social Credit proposals of Major Douglas fulfil these conditions. Their title to general support is that they can make the poor rich without making the rich poor, and involve no change in administration, only a change in financial policy.

No question is of greater importance for the country or the world than this question of the purchasing power of money. It dominates all other problems. Incomes are good or bad, according to what they will buy, not according to the number of pounds of which they are composed. But until we decide to regulate prices on scientific lines, we must expect to see the value of our money decline with every fresh credit issued, and see the next war come correspondingly nearer with every such decline.

The world is travelling towards war and chaos because it is still largely dominated by its subconscious instincts. For thousands of years, a million, perhaps, until the growth of reason brought civilisation into existence, mankind had to fight hard with Nature for a living. During that time the conditional truths of scarcity and the need for hard work sank deep into the unconscious, and acquired the validity of immutable laws, as little to be questioned as the law of gravity.

The general mode of living being relatively unchanging, instinct developed into a quick and reliable guide, able to deal with most of the circumstances of life; but with the coming of civilisation, greater adaptability was called for, and the responses of instinct became misleading and dangerous in the new and ever-changing situations which arose. The need to substitute reasoning processes for unconscious instinct, in order to deal successfully with the numerous problems of civilised life, grew faster than did the process of substitution; and that is probably the whole explanation of the failures of civilisation.

## XII.

Conscious reasoning has not yet proceeded far enough however. If it had, it would have been seen that the organisation of power and knowledge had destroyed the validity of the above-mentioned conditional truths. It would have been seen that there is no longer any real scarcity, and that insistence that everybody must work as a condition of being granted a living, far from

helping the civilised world out of its difficulties, is the very thing which, in face of the competition of more efficient machines, will ere long smash it up completely.

Unfortunately, the subconscious instincts of a million years' growth are not easily uprooted by a few thousand years of civilisation.

And what of the League of Nations? Can it do nothing to prevent war?

The League of Nations has, no doubt, the instinct to prevent war; but it is not using its reason to that end. Instead of seeking for the cause of wars, and working to have it removed, it plans only to bring about general disarmament, hoping, by thus clipping the wings and claws of possible belligerents, to make war impossible. It is a vain hope. Deadly and destructive wars can be fought with improvised weapons and means of attack, and will be fought as long as one nation endangers the life of another.

Moreover, supporters of the League are not all animated by humanitarian motives. The well-meaning, if somewhat unthinking, majority want quite genuinely to make the world safe for mankind in general, it is true; but the cleverer minority who determine the policy of the League are more concerned about making it safe for International Finance: and this they hope to do by taking from the nations the capacity for effective resistance, and reducing them to a state of impotence.

The League's policy is a banker's policy: the record of its activities proves that. One of its main functions, so far, has been to bring pressure to bear on any nation which showed a disinclination to be bound by the gold standard or the rulings of orthodox finance. Austria, for instance, after the war, was reported to be making a very interesting financial experiment. Like other countries which had been engaged in the war, it needed money to carry through its schemes of reconstruction; but, instead of putting the new money it created into circulation in the ordinary way, as they did, and so inflating prices, it made free gifts of it to merchants on condition that they reduced their prices to the public in proportion to the amount of money they received.

By acting in this enlightened way, Austria was rapidly getting over its economic difficulties and becoming the most prosperous country in Europe; but, at that point, the League stepped in, and, by persuasion or pressure, induced it to return to the straight path of "sound" finance and the gold standard, whereupon it sank to the poverty-stricken level of the other "faithful" nations.

As International Finance alone had anything to gain by the abandonment of the experiment, the only possible inference is that the machinery of the League was set in motion to that end by International Finance.

To anyone who has followed the arguments here presented, it should be clear that orthodox finance can offer the world no alternatives but war or starvation; and, as no nation will accept starvation if it can avoid it, all the nations are doomed perpetually to war until they either

exterminate each other or acquire sufficient intelligence to reform their financial system. Until then, the League of Nations, despite the good intentions of most of its supporters, must be regarded as a menace to the peace of the world.

It is not necessary to assume that the bankers set out deliberately to will bad trade, unemployment, poverty, revolution, or war. They are probably in their way, humane men, good husbands and fathers, and hate these things quite genuinely. Nevertheless, they will the policy that brings them about, and must, therefore, accept responsibility for them. At present they have power, supreme power, without responsibility; and the blame for the evil results of their policy is successfully thrown on the Government, or the employers, or the workers, or the Communists, or on foreign competitors—on everybody, in fact, but those on whom it properly lies: themselves. The truth is, their operations are so hidden from view that the bulk of the people, not being given to the practice of hunting for ultimate causes, do not connect them with their own misfortunes. But if the bankers persist in disclaiming responsibility they must make way for men who are prepared to accept it.

If, in order to get to the bottom of this business, the Government were to have the leading bankers detained in close confinement—in not too comfortable surroundings—until they devised a scheme such that it would remove the fetters from industry, and ensure that what the consumer wanted produced would be produced, that it would be produced in sufficient quantity to satisfy him, and that he would get it when produced, there is little doubt that a suitable scheme would be forthcoming in a few day's time. They know quite well what is wrong with their system; and it is unlikely that they would care to defend it in the face of an awakened, and very possibly incensed, public.

Such a step would put an end to and prevent untold misery, and, in the long run, might be doing the bankers themselves a kindness; for, if nothing is done—and they show no sign of making a move—and if a knowledge of their culpability in respect of the world's sufferings penetrates to the masses, and it is penetrating, the consequences for the bankers are likely to be unpleasant.

Bankers are like fire—good servants but bad masters. Let us raise them to the level of servants.

The End

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SOCIAL CREDIT LITERATURE

The works of Major Douglas, in order of publication, are as follows:

Economic Democracy, 6s.

Credit Power and Democracy, 7 s. 6d.  
The Control and Distribution of Production, 7 s. 6d.  
Social Credit, 3s. 6d.

These, and other books and pamphlets by various writers on Social Credit, are obtainable from the Credit Research Library, 70 High Holborn, W.C.I. Particulars are advertised in *The New Age*.

Three journals are published in advocacy of Major Douglas's Proposals.

*The New Age*. 7d. weekly; annual subscription 30s., published at 70 High Holborn, W.C.I.  
*The New English Weekly*. 6d. weekly; annual subscription 30s., published at 38 Curistor Street, London, E.C.4  
*The Free Man*. 2d. weekly; annual subscription 10s. 10d., published at I India Buildings, Victoria Street, Edinburgh.

These journals discuss current events in the light of the Social Credit Analysis, Major Douglas himself being an occasional contributor.

EDITOR'S NOTE [2004]:

- (1) The above Social Credit literature list is out of date.
- (2) Other works by "H.M.M." include: *The A+B Theorem* (1935) & *The Struggle for Money* (1957)