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SEARCHLIGHT ON SOCIAL CREDIT

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BY

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AND

J. A. FRANKLIN

WITH AN INTRODUCTION BY

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CONTENTS

CHAP.	PAGE
INTRODUCTION BY KINGSLEY MARTIN	vii
I. THE NEW ECONOMICS	I
II. THE A PLUS B THEOREM	15
III. MORE LIGHT ON THE THEOREM :	
(a) THE RATE OF FLOW ARGUMENT	27
(b) A. W. JOSEPH ON THE THEOREM	30
IV. MAJOR DOUGLAS' DEFENCE OF THE THEOREM	40
V. FIVE ALLEGED CAUSES OF DEFICIENCY	51
VI. A NEW PRESENTATION OF THE THEOREM	73
VII. THE RISE OF DEBT	85
VIII. MAJOR DOUGLAS AND THE BANKS	100
IX. THE FUNCTION OF CAPITAL	121
X. THE DOUGLAS CONCEPTION OF MONEY	134
XI. THE INFLATIONARY CHARACTER OF THE DOUGLAS PROPOSALS	144
EPILOGUE	163
INDEX	171

THEY CAME UNTO ALBERTA

INTRODUCTION

I FIRST met the ingenuities of Douglasites at Cambridge soon after the war. The controversy was usually conducted on a lofty plane of abstraction, for undergraduates learn to use their brains before they can know much of the subject matter of the theory they are discussing. The climax of these discussions was, I believe, Frank Ramsay's complicated mathematical analysis in the *Economic Journal*. But economic theories are not abandoned because they are convicted of intellectual error. How great a nuisance Douglasism could be first became apparent in 1931 when the conditions for its propaganda were ideally fulfilled.

In that crisis it was easy to demonstrate the absurdity of poverty in the midst of plenty, to argue that banking policy played an important part in the depression and to see that unemployment was merely the name we give to leisure divorced from purchasing-power. No one put the critical case against the existing system more pungently than Orage, the best populariser Douglasism has ever had, but Orage did not regard the Douglas formula as the philosopher's stone and did not even think it a substitute for Socialism. Most of the other Douglasites were less reasonable. Scores of letters, many of them as long as leading articles, poured into every newspaper office ; it was fatal, as I found in the case of *The New Statesman and Nation*, to print a selection of these letters and to point out with how much of their criticism of the existing system of credit one was in agreement. The result was a stream of even longer and even more passionate letters assuming that only some mental or moral obliquity prevented one from accepting the whole Douglas theory, while every letter that was not printed produced several others denouncing one for suppressing the truth.

It soon became obvious that Douglassism was a religion. Its tenets were remarkably difficult to refute or even to examine, because when any passage or proposition was selected for discussion, the followers of Major Douglas explained that he had since said something different, or that the words in that particular quotation had a special meaning which had been explained in some other book in which the proposition was differently stated. Thus Douglassism benefited by the obscurity of its detailed exposition as well as by the simplicity of its popular appeal. No theory ever had more obviously the marks of being built on wish-fulfilment. We were suffering from lack of purchasing-power; therefore adopt Major Douglas' specific and all social problems would be solved. In essence the appeal is as simple as that of the Townsend scheme which promised every American twenty dollars a week, and as attractive as every scheme of handing out largesse must be in a world so fantastically maladjusted that some men starve while others throw food into the sea. Having once accepted the Douglas formula the converted must preach it in season and out of season. In the end, as the first chapter of this excellent book by Mr. Hiskett and Mr. Franklin shows, the more fanatical exponents of Douglassism decided that all rational argument was a mistake, that they had "nothing to rely on except assertion," and that all economic truths had been finally and perfectly embodied in the works of Major Douglas.

More significant still is the political attitude of the Social Credit Party. The object of voting in "Douglas politics" is "to record the desires and not the intelligence of the people." It is worth while to notice the parallel here with Germany before Hitler. One of the tributaries of German Fascism was just this type of economic theory which served very effectively to divert a section of those who would otherwise have been Socialists by inducing them to believe that there was a quick route to the abolition of the evils of capitalism which did not involve the dangers, the difficulties and the intellectual and physical courage involved in abolishing capitalism itself. Combine this with propaganda to the effect that the final truth has been discovered

and that one only has to record one's desire to alter society and leave intelligence to the "leader" and your Social Credit politician is indistinguishable from one of the "radical Nazis" who preached that economic salvation lay in supporting Hitler—at least until they found themselves in concentration camps.

While the Douglas controversy was at its height I received a letter from J. A. Franklin, whom I had not seen since we were small boys at the same school some twenty years earlier. I chiefly remembered him as an exceptionally shrewd and businesslike swapper of stamps. I was at first sorry to find that he had given up this harmless hobby for the all-engrossing pursuit of Douglasite truth. But, unlike most Douglasites, he regarded the truth as still open and Douglasism as a theory to be critically examined and finally established or discarded. Some months later he told me he had reached the end of his search; he knew now that Douglasism was nonsense. He was in a good position to explain why because he had been an honest believer and an exponent of the faith and so could not be dismissed by the Social Credit papers as a prejudiced or superficial critic.

The long-standing reproach that no serious economist would take the trouble to publish a careful examination of Douglasism has in recent years been removed by Mr. Gaitskell, Mr. Durbin, Mr. Hiskett and others. But the present book is in several ways the most important and useful refutation before the public. It is written with intimate knowledge of Douglasite literature and the Douglas mentality. The authors understand the political bearing of Douglasism which may still deceive many well-meaning and idealistic people when another slump once again calls attention to the deficiencies of orthodox economics.

Most important of all, Mr. Hiskett and Mr. Franklin have brought to their task an admirable patience and a most praiseworthy persistence. They have refused to be defeated by the elusive nature of Douglasism and have, I veritably believe, tracked down, shown up and destroyed not merely

the original A plus B theorem, but every one of its numerous re-statements and re-interpretations in books and pamphlets and in the copious periodical literature of Douglassism. The book is sincere, lucid, and, I think, conclusive. What more could one ask ?

KINGSLEY MARTIN,

CHAPTER I

THE NEW ECONOMICS

NEWNESS is not the hallmark of goodness, any more than common belief and practice are of necessity based on error. This statement expresses a truth which, however obvious, Social Crediters often appear to overlook. Major Douglas, and those who think with him, so frequently inveigh against orthodox economists and so insistently claim for their theories the title "The New Economics" that one is led to believe that, for them, heterodoxy is the cardinal virtue and orthodoxy the unforgivable sin. On Major Douglas' lips "orthodox economist" is more than a term of reproach ; it is bitter sarcasm.

This intensely critical attitude toward orthodox economic theory has become characteristic of the Social Credit Movement. In essaying to attack the intolerance of established authority, it becomes more intolerant than authority itself. An example of this intolerance of criticism appeared in the issue of *The New Age* of July 13th, 1922. A Labour Party Committee, under the chairmanship of Lord Passmore (then Mr. Sidney Webb) and including Professor R. H. Tawney, Dr. Hugh Dalton, Messrs. G. D. H. Cole, Rhys Davies, Arthur Greenwood, J. A. Hobson, Frank Hodges and a number of others, had been examining the proposals of Major Douglas and had reported adversely. *The New Age* retorted, in their "Notes of the Week" (Vol. 31, page 126), with the following extravagantly absurd and petulant comment :

Whether the all-powerful Banks have secretly ordered their agents in the Labour Movement to dissociate the Party from any fundamental attack upon the existing financial system, we do not know and do not care.

In the following issue (page 152), a contributor, "H. A. C.," expressed the Social Credit contempt for the Committee in the following terms: "It is very doubtful whether jointly or severally, the whole Committee could understand—in the practical sense—the economics of a whelk-stall."

All political attachments apart most people would agree that such a method of dismissing the findings of a committee composed of men of considerable eminence and ability is more ludicrous than convincing.

The trouble with most Social Crediters appears to be that they have elevated their beliefs to the level of a faith. They see themselves as an intellectual aristocracy to whom the truth has been revealed. Their prophet is Major Douglas and the doctrine which he has promulgated has almost the authority of holy writ.

Mr. John Hargrave, leader of the organisation now known as the Social Credit Party of Great Britain and Ireland and popularly referred to as the "Green Shirts," writing in *The New Age* on October 18th, 1928, said :

The Kibbo Kift [an earlier name for the same organisation] is convinced that the Social Credit analysis and proposals are mathematically correct, and therefore we do not discuss them any more than a Roman Catholic will discuss, or argue about, the Godhead.

Another well-known Social Crediter, Mr. J. Golder, writing in *The New Age* of November 26th, 1931, stated :

The present writer has had a long and varied experience as an active exponent of the Douglas Credit philosophy, of which the financial thesis and theorem is the core. That experience shows that there is nothing else to rely on except *Assertion*! The whole Social Credit thesis is a "stand-pat" position. Economic Democracy is not put forward as a novel and ingenious contribution to the discussion of public affairs, in which men are "ever learning but never able to come to the knowledge of the truth." It closed the discussion. "A plus B" is not opinion. It is a righteous judgment. The "original thinkers" are too late. It is not a crime to have views differing from the "pure milk of the Douglas word." It is a blunder.

Could anything more clearly express the claim to that infallibility which belongs to inspiration ?

Lest it should be thought that such views are confined to the more ardent and less responsible of Major Douglas' supporters the following quotations from Editorial articles in the same publication are interesting as showing a similar trend of thought.

"I do not consider Major Douglas an economist," said one writer on economics on a certain occasion, thinking that he was thereby belittling Major Douglas. In so saying he spoke wisdom by accident. It is broadly true to state that Major Douglas has come into the world to abolish economics. Even supposing that all previous statements of economic "facts" were *true*, no more than a vanishing fraction of them are *relevant*; and that fraction which *is* relevant will be found incorporated in Major Douglas' own expositions. The only text-books necessary for the student are Major Douglas' and others written round them.

(The New Age, November 10th, 1932.)

What more comfortable doctrine could be devised for the propagandist? The only text-books necessary to the student are those written by and for Major Douglas in support of his particular theories. Reason and argument become superfluous. The oracle has spoken. To doubt is an impertinence. Social Credit doctrine has the mysterious quality of a revelation.

The fundamental concept on which the whole issue turns is extremely elusive; and if Major Douglas had not, so to speak, spotted it when he was not looking for it, and fixed it in writing before he forgot it, there is every probability (in our view it amounts to certainty) that nobody would have known of it to-day, nor might have known for another century. Take a good look round at the array of economic experts now paraded before the public, and ask yourself how near they would have come to such a discovery!

(The New Age, March 3rd, 1932.)

That Major Douglas succeeded in formulating a new economic theory may be freely admitted. That he is exempt from the necessity of justifying it and proving his contentions where they conflict with orthodox opinions must be disputed. The originator of a new idea has a

right to a hearing. He has no right to expect others to walk blindfold where he leads.

Receptivity to new ideas, and a desire to make adjustments in the light of advancing knowledge is not inconsistent with recognition of the substantial claims of established belief. There is at least a *prima facie* case for supposing that the combined wisdom of a multitude of theorists and investigators has approximated to the truth, and a new theory which completely traverses orthodox opinion must expect to be examined with suspicion.

This is not to say that revolutionary changes are never necessary, or that subversive doctrine is never justified. But it does mean that the obligation is with the innovator to prove his case objectively. Precisely because a fundamental change involves a complete readjustment of ideas, the onus of proof rests upon its advocates, and only when that proof is amply furnished can the older doctrine be justly discredited.

The Social Credit Movement has never succeeded in submitting a demonstration of its case which could not be refuted, and the refutation has been repeatedly offered by competent authorities. Yet the result has merely been a restatement of the case in slightly different terms but based on the original fallacious assumptions. This elusive character of Social Credit propaganda has been very aptly referred to by Mr. Hugh Gaitskell in the following passage taken from *What Everybody wants to know about Money*, edited by G. D. H. Cole and published by Gollancz.

An opponent may destroy to his own satisfaction one of the interpretations, but another will appear in its place. Unless he be gifted with exceptional patience and enthusiasm he will turn away in helpless irritation long before the complete repertoire is exhausted.

Probably the repertoire never can be exhausted because, as Mr. Gaitskell also says, "for each supporter there is an interpretation which suits his intelligence and his knowledge."

It is this elusive character of Social Credit theory which

has always handicapped critics and provided an avenue of escape for defenders. Its presentation takes such diverse forms and it lends itself to such a variety of methods of treatment that its exponents can always retreat from a position which is being heavily attacked, in order to take up a new and less exposed one. If the critic turns his guns on to the new position, another evacuation will then take place, and so on until his patience has become exhausted.

It is largely by this method that the Social Credit Movement has attempted to evade its critics, and has carried on a sort of guerilla warfare, sniping at economists, bankers and financial experts but never risking a decisive engagement. Whenever the challenge has been taken up and an attempt made to expose the fallacious character of Major Douglas' reasoning, the plea is at once advanced by his supporters that he has been misrepresented or incompletely quoted or that the critic has failed to understand the Douglas thesis. The critique may be careful and thorough to the last degree and its author may have been meticulously exact in his quotations, but if the Social Credit advocate can point to some entirely irrelevant passage which has been omitted the claim is at once advanced that a vital part of the doctrine has been left out of account. In an attempt to overcome this difficulty, one of the present co-authors reproduced the whole of the cross-examination of Major Douglas before the Macmillan Committee and subjected his oral evidence to a detailed and searching analysis (*Social Credits or Socialism*, by W. R. Hiskett, Gollancz, price 5s.). A careful perusal of this evidence should convince any impartial student that the founder of the Social Credit Movement completely failed to make out his case when given the opportunity to do so before a Government Committee of enquiry.

The present volume is an attempt to deal in a more comprehensive fashion with each of the forms in which Douglasism is presented. The central thesis of Social Credit has been ably dealt with by several writers but there has been no previous attempt to deal in detail with each specific argument by which the theorem is surrounded. In

our view no apology is necessary for adding a further volume to the already extensive literature upon this subject. The fact that Social Credit propaganda has penetrated into most of the more important countries of the world ; that in this country, in the United States of America, in Canada and in Australia, it has its own press and an active organisation, and that it has—notably in the State of Alberta—achieved substantial political success, makes it a force to be seriously considered.

Amongst its adherents are many people actuated by the sincerest and most altruistic motives, and their sincerity is sometimes accepted as the current coin of truth and accuracy. But honesty of purpose is no substitute for logical justification. The pages of history are strewn with honest zealots who have created endless confusion, and often provoked disaster, through the pursuit of a mistaken ideal.

The fact that Social Crediters honestly believe what they preach gives them a right to a hearing, but it does not absolve them from the obligation to substantiate their statements when those statements run counter to views held unanimously by all serious students of economics. For at the elementary level at which Major Douglas makes his mistakes there is no difference of opinion amongst economists however much they may differ on more advanced planes of economic theory.

A great deal might be quoted from Social Credit literature in support of the contention that the Movement does not frankly accept this obligation of proof, or at least that it is satisfied with explanations which are convincing only to its own supporters. The following quotation from the official organ of the Social Credit Secretariat sufficiently illustrates the point.

A positive statement of the Secretariat's attitude to Social Credit principles and propaganda should avoid future misunderstanding, apart from misrepresentation.

We are satisfied that the Social Credit financial proposals, as propounded by Major C. H. Douglas, provide an effective mechanism for securing the policy of Social Credit, which is Economic Democracy.

Every new criticism and objection which has been brought

against these proposals during the past seventeen years has been adequately met. We do not believe that any further criticism will arise to necessitate any modification of the principles involved.

Social Credit has been examined from every angle and is established unassailably as one mechanism, probably the only mechanism, which will produce the desired results. There for the present we are content to let the matter rest.

We do not desire nor intend to enter into any further controversy in regard to it. We do not ask nor require any further examination of it, judicial or otherwise.

(*Social Credit*, December 6th, 1935—page 130.)

The claim that "every new criticism and objection which has been brought against these proposals during the past seventeen years has been adequately met" has little substance when not a single economist of repute is prepared to accept the replies as adequate. Major Douglas' failure to satisfy and convince expert opinion is definite and complete. He and his supporters meet this failure with what is perhaps the obvious tactic, disparagement of the experts. We quote a typical example, also taken from the official organ of the Secretariat.

It needs a professor of economics to brush aside the obvious truths and substitute unconvincing theories. Indeed, an exhibition of orthodox economic argument by an expert is often like a performance by Mr. Maskelyne.

Professor Hayek, the well-known Austrian conjuror-economist, is now delighting audiences at the London School of Economics by his star turn called the Disappearing Plenty.

"The granting of credit to consumers which has recently been so strongly advocated as a cure for depression," he says, "would in fact have quite the contrary effect. A relative increase of the demand for consumers' goods could only make matters worse."

There is no need to go into the fantastic and far-fetched arguments which he uses to "prove" this statement. It is enough that an accredited professor of economics can get up and say that in days when people are half starved and factories are suffering from industrial apoplexy that the obvious means to relieve both symptoms simultaneously is really nothing but an illusion!

Is it really worth while spending time arguing with these economist-conjurors? Surely there is a limit to idiocy, even in this field of so-called science, and when that limit has been reached it is better to cease arguing and show a little righteous indignation.

8 SEARCHLIGHT ON SOCIAL CREDIT

In other words, to demand results which common sense tells are possible, and which everyone really wants.

(*Social Credit*, June 14th, 1935—page 284.)

The superficial arrogance which is so frequently displayed by this official paper is in itself remarkable, but what is still more extraordinary is the fact that it is directed even toward stalwarts of the Social Credit Movement who venture to differ from the Secretariat on questions of policy or tactics. A recent example occurred in a review of Mr. Marshall Hattersley's pamphlet "Aberhart and Alberta" appearing in *Social Credit* of August 6th, 1937.

Mr. Hattersley is a well-known Social Credit publicist who in the past has rendered conspicuous service to the cause he has espoused. His book *This Age of Plenty* has been widely recommended in Social Credit circles as one of the text-books of the Movement. His recent pamphlet is an extremely frank and objective review of the Albertan situation but he has the temerity to doubt the wisdom of Major Douglas's reaction to the cabled invitation of Premier Aberhart. This is how the reviewer deals with Mr. Hattersley and his pamphlet.

Irresponsible criticism, leading nowhere, seems an inevitable accompaniment to the progress of any movement, class, or creed; dogs apparently must have their fleas, and every ship its barnacles. A little scraping occasionally becomes necessary in both instances, however.

On no other supposition can the appearance of Mr. Marshall Hattersley's recent pamphlet, "Aberhart and Alberta: the First Phase," be understood.

* * * * *

But it would be perhaps a trifle morbid to dissect further this oddly large threepence-worth of matter already deliquescent, though certain of the author's economic verdicts are sufficiently astonishing in what purports to be a Social Credit pamphlet.

Enough! The only thing for a corpse in this condition is a prompt interment.

The writer is clearly an artist in this kind of pleasantry and he is so devoted to his art that friend and foe alike receive his attentions. Whether in this particular effort

he passes the limits of decency is a matter for Social Crediters to decide. Our object in quoting it is to illustrate the point that arrogance is habitual to this organ of the Secretariat.

This is a conclusion to which not only critics of the Movement but also influential bodies of its supporters have come. *The New English Weekly*, a paper founded by the late A. R. Orage, and consistently devoted to the cause of Social Credit, contained in its issue of July 23rd, 1936, the following dignified protest.

The Secretariat is now committed to a policy which will hold no converse with supporters of the cause it seeks exclusively to represent, and claims the right to exercise full powers of excommunication against all who remain unconvinced of its infallibility. Such an attitude is congruous enough with the philosophy of a Stalin or a Mussolini. That it should be adopted by those who speak for, and apparently with the concurrence of, Major Douglas is a strange and tragic comment upon fifteen years' development of the philosophy of the Only Democrats.

When even the friends of Social Credit are goaded into such protests, little wonder that critics receive drastic treatment.

But notwithstanding Major Douglas' contempt for expert opinion, he has not consistently disregarded it. Permission to state his case before the Macmillan Committee was sought and obtained by certain of his supporters and since he readily responded to the resulting invitation it may be presumed that the approach was made with his knowledge and consent. He also gave evidence before the Select Standing Committee on Banking and Commerce appointed by the Canadian House of Commons in 1923, and before the New Zealand Monetary Committee in 1934. The conclusion seems irresistible that had he succeeded in convincing even a minority of experts, the weight of their authority would have been fully enlisted in the service of the Social Credit Movement. But since the experts would have none of it, Social Credit has no use for the experts. The appeal must therefore be to "common sense"; to the ordinary member of the community not concerned with technical considerations; who merely sees the effect of economic

malaise, and is concerned only to demand the remedy. It is not surprising, therefore, to read that :

The fundamental premise of Douglas politics is that the object of voting is to record the desires and not the intelligence of the people.

(*Social Credit*, April 12th, 1935—page 134.)

The much-advertised and boosted "Electoral Campaign" specifically aims at the enrolment of supporters on the purely negative ground of protest against certain obvious anomalies in the present economic situation. Electors are urged to concentrate upon the fact of the existence of under-consumption side by side with tremendous unused resources of production, and they are asked to insist upon the application of Social Credit remedies for this state of affairs, without examination of their technical soundness. In the words of Mr. W. L. Bardsley, secretary to the Social Credit Secretariat :

If we tell people that poverty can be abolished, and they agree that they want poverty abolished, all they have to do is to demand it. Yet many of them will want to start an argument about how it is to be done. They must be shown that such an attitude is a menace to themselves, to their neighbours, and to democracy.

(*Social Credit*, August 31st, 1934—page 28.)

Such a statement would be understandable were the intention merely to stimulate discontent with intolerable conditions, and were no attempt being made to insist on a particular kind of remedy. But the underlying purpose is to mobilise electoral support for Social Credit proposals.

Mr. L. Denis Byrne, a member of the Social Credit Secretariat, who was one of Major Douglas' representatives sent to advise the Albertan Government in the summer of 1937, writing in support of the "Electoral Campaign," promised :

If you will act on the lines we suggest and the electors of the country do so in sufficient numbers, you will get a Government which is pledged to give you security and freedom, and the issue of a national dividend, thus abolishing poverty from a land of plenty. It is not necessary for the Government to know how a

dividend can be distributed without a rise in prices or increase in taxation. Its function is to call together the experts who profess to know all about such matters and say to them—"The people demand the abolition of poverty in plenty by means of national dividends, without a rise in prices or increase in taxation. We demand you do this within such and such a time. If you fail we shall sack you and appoint another set of experts to do the job with a similar or shorter time limit. And we will continue this procedure until the job is done. Now get on with it."

When in our youth we revelled in the stories of wicked magicians who set impossible tasks to be performed in an incredibly short time, upon pain of death, there was always a fairy godmother, or an obliging dwarf, who mysteriously appeared and completed the task. But the experts ordered to conjure dividends for all out of the blue, without adding a jot to prices or taxation, would be faced with an equally impossible task and with no possibility of supernatural aid.

This, briefly, is the claim put forward by the Social Credit Movement. The situation crystallised in the phrase "poverty in the midst of plenty" is to be held a sufficient justification for the issue of National Dividends as a means of correction. The public are to be advised to insist upon this particular form of solution. The means may be left to the experts.

The abolition of poverty is the objective, and politicians must be educated into making it their conscious and deliberate goal, but inseparably connected, in the Social Crediter's mind, with the attainment of this goal is the issue of National Dividends, and all that their issue implies. The instruction to politicians is in reality that they shall find a means of putting into operation proposals which have never yet been demonstrated to be practicable.

The claim is made that the technique of Social Credit is sufficiently well understood by the leaders of the Movement. Further discussion of its details is unnecessary. Electors do not need elaborate explanations. They need only to be told to demand National Dividends as the solution to their problems.

What the Social Credit Movement is really asking is that the public shall consent to a new form of "doctors' man-

date." A mandate entrusted, not to any duly accredited physician, but to a "quack" with no credentials and with a "remedy" which would only aggravate the disease. The execution of the mandate, in terms dictated by quackery, it is suggested, may be left in the hands of the experts, and the experts are presumably people who subscribe to the orthodox economic theory.

The fact that no single economist of repute is prepared to answer for the technical soundness of Major Douglas' analysis or to recommend his proposals, matters not at all. The public are to demand the National Dividend and Consumers' Credits, and the experts are to be instructed to find a method for giving practical effect to proposals which they have already declared to be impracticable.

It is only fair to note that large bodies of Social Crediters do not support the "Electoral Campaign" and its underlying assumptions. *The New Age* (June 17th, 1937) says: "The electoral campaign is a dead horse." *The New English Weekly* (July 23rd, 1936) affirmed:

We have encountered already some pretty tall claims, made by Major Douglas' immediate following, for the Buxton speech, an interpretation of democratic principle which has seemed to us—and not to us alone—about equally compounded of self-evident truths and disputable speculations.

The practice, which Major Douglas and certain of his followers adopt, of contemptuously brushing aside the whole volume of expert economic opinion and even the advice of large sections of supporters is mere effrontery, and amounts to an assumption of superior knowledge and judgment for which there is no justification.

Of course many Douglasites would hotly dispute such a statement. But the point of view of their critics needs to be plainly and definitely stated. If Social Crediters can produce a reasoned exposition of their case which cannot be demolished by logical analysis, they will have laid a firm foundation for their proposals. But until that is done they need to be reminded that assertion is not argument, and a new theory cannot be established solely on a basis of criticism of the old.

It is the purpose of the present volume to deal comprehensively with the various contentions by which Major Douglas and his supporters seek to establish their case, and to submit a justification of the claim that the case has never been made out.

The charge that criticism of Social Credit is not disinterested and is inspired by bankers and people concerned to maintain a financial monopoly has frequently been made and may in the present instance be repeated. It will be well to assert in advance, therefore, that the joint authors hold no brief for the banks or for any financial interest and have no motive other than a desire to assist in establishing the truth.

Basically, the economic theory which is implied by the term "New Economics" rests upon the plea that the present economic system is inherently defective in the sense that it involves a continuous deficiency of purchasing-power. The claim is that the deficiency is not periodic or accidental, but is chronic. According to the Social Credit contention the flow of purchasing-power which reaches consumers is almost always less than the flow of prices. A surplus of goods is in consequence created—surplus, that is, only in the sense that it is surplus to the capacity of consumers to purchase, though not surplus to their capacity to consume—which under existing conditions can be made available for consumption only by piling up debt to the banking system, or by bankruptcies and sales below cost.

This deficiency which Major Douglas visualises bears no relation to the deficiency which economists recognise as existing in a period of depression ; neither has it any identity with the need for currency expansion which advocates of a Managed Currency believe to exist in consequence of the productive system expanding—or being capable of expanding—more rapidly than a rigid monetary system is allowed to expand. The latter hold that whilst the system is inherently self-liquidating, it is desirable that expansion of the monetary system should be closely related to expansion of the productive system.

Fixed currency advocates visualise a gradually falling

price level as the result of productive expansion. Managed Currency advocates visualise a price level stabilised or controlled by the injection of new currency to meet the expansion of production. But neither recognise an inherent discrepancy between purchasing-power and prices.

Major Douglas is in complete disagreement with both these points of view. He maintains that the present system is not self-liquidating, and that even in a period of repetitive production a gap exists between purchasing-power and prices, which only the issue of Consumers' Credits, and some form of National Dividend, can fill.

The existence of this gap is essential to Major Douglas' case. He endeavours, in the first instance, to demonstrate its existence by his A plus B Theorem which professes to discover a flaw in the present costing system, and he subsequently alleges certain other contributory causes of deficiency. Each of these claims will be examined and dealt with in turn.

It is necessary to insist very strongly at the outset, however, that his proposals are not designed to meet conditions which economists already recognise as existing ; such, for example, as the deficiency in periods of depression, or the circumstances which may lead in other periods to a fall in the price level. His proposals, on the contrary, are designed to meet a deficiency much greater in volume ; one which is continuous and which, it is alleged, arises out of an inherent failure of the industrial system to distribute purchasing-power at a rate equal to the flow of prices.

Upon the existence of this gap Social Credit depends completely for its justification. If it is a reality, then some such method of filling it is both possible and desirable. If, on the contrary, the gap is non-existent, then the whole structure of Social Credit collapses and the issue of new credit on the scale proposed by Major Douglas stands revealed as nothing more, nor less, than colossal and extremely dangerous inflation.

CHAPTER II

THE A PLUS B THEOREM

THE search for a formula which would be accepted as an authoritative statement of the Social Credit case and the truth or error of which might be ascertained by logical analysis, is an elusive quest. In the main, Social Crediters do not draw their inspiration from, and support their beliefs upon, specific principles which can be concisely stated. On the contrary they are very largely influenced by a general groundwork of suspicion and distrust of the present financial and economic systems.

For those who are profoundly convinced that the positive beliefs which emerge from these suspicions are wholly mistaken the task of demonstrating their falsity is tremendously increased by the fact that not one error, but a whole crop of false premises and wrong conclusions, arise from this hotbed of suspicion. It is perhaps doubtful whether any adequate impression can be made upon Social Credit misconceptions and fallacies except through the removal of a vast substratum of misunderstanding and error. An attempt will be made, in the present volume, to clear the ground of much of this basic misunderstanding, but to deal adequately with that side of the problem a general introduction to the elements of economics would be required. The immediate task is to examine the positive side of Social Credit theory, leaving a gradual improvement in understanding of economic and financial subjects to deal fundamentally with the roots of the problem.

The most concrete expression of his principles which Major Douglas has achieved is the proposition known as the A plus B theorem. Although certain Social Credit propagandists tend to minimise its importance, it is beyond dispute a vitally important part of the Social Credit case.

This is borne out by Major Douglas himself, for in the correspondence columns of *The New Age* of September 29th, 1932, page 262, when replying to a suggestion that Social Crediters might leave the A plus B theorem alone, he said :

The only objection to leaving the A plus B theorem alone is that on the conclusion derived from it depends the fate of a whole economic system, and together with it, a civilisation.

The exact meaning of the theorem appears to be somewhat obscure. Most of the critics of Social Credit have placed a literal interpretation upon the language in which Major Douglas has clothed it. In this they were undoubtedly justified, for precise language ought to be considered essential when presenting a new and contentious economic theory. A proposition which purports to be a demonstration of the correctness of the Social Credit analysis should be more than symbolic ; it should be factually correct. Yet whenever a criticism of Social Credit has been based upon a literal interpretation of the theorem, the critic has usually been accused of lack of understanding, or of deliberate distortion.

It may be inferred from this that many Social Crediters interpret the theorem in a sense which is not immediately deducible from the wording, and which is not the sense in which it is generally construed by critics.

It is significant, too, that Major Douglas, in his booklet *The New and the Old Economics*, which was issued as an answer to the criticisms of Professor Copland and Professor Lionel Robbins, devotes himself mainly to a defence which does little or nothing to justify the language of his theorem. He attempts to show that a deficiency results from the abstraction of purchasing-power and its use for the creation of new capital assets, the cost of which he maintains must later appear in prices. In his view this process creates a cost which consumers cannot meet.

Although it may be said that this claim is implied in the A plus B theorem, it is certainly not the whole of the theorem if a literal interpretation be adopted. And surely Major Douglas meant it to be taken literally. Any other assump-

tion would mean that he had used language so loosely that a proposition intended to be little more than an illustration was given every appearance of a precise factual statement.

The conclusion seems irresistible, therefore, that it was meant to be a careful statement of fact ; that at the time of its publication Major Douglas believed it to be literally true ; but that later doubts have caused him to depart from his original beliefs, with the result that the more recent defence is concerned with a greatly modified claim. With this later conception we shall deal in due course.

Because of the dubiety concerning the meaning of the theorem it is difficult to deal with it critically. If the perfectly reasonable course is followed of accepting Major Douglas' words at their face value, and interpreting his meaning according to the accepted usage of the terms employed, the critic may expect to be accused of lack of understanding, or worse. On the other hand, if he attempts to concentrate on reasonable interpretations or upon the case which may be deduced from more recent presentations of Social Credit philosophy, he may be accused of setting up a fictitious case of his own invention, for the satisfaction of demolishing it. In order to overcome this difficulty, it is proposed, in the present instance, to proceed upon each of the possible assumptions in turn, leaving the customary objections to cancel each other out.

The preliminary discussion of the theorem will in the main follow the lines laid down by previous critics. Consequently, in the opinion of the votary of a more abstruse interpretation of Douglas economics, it may appear obsolete and unnecessary. We have been influenced in following this course, at the risk of a certain amount of criticism, by a desire to cover every possible interpretation and in order to provide a suitable background for consideration of the modified version of the theorem which we shall later discuss.

The following statement of the theorem occurs in *Credit Power and Democracy*, pages 21 and 22.

A factory or other productive organisation has besides its economic function as a producer of goods, a purely financial aspect—it may be regarded on the one hand as a device for the dis-

tribution of purchasing-power to individuals through the media of wages, salaries, and dividends ; and on the other hand as a manufactory of prices—financial values. From this standpoint its payments may be divided into two groups :

Group A—All payments made to individuals (wages, salaries, and dividends).

Group B—All payments made to other organisations (raw materials, bank charges, and other external costs).

Now, the rate of flow of purchasing-power to individuals is represented by A, but since all payments go into prices, the rate of flow of prices cannot be less than A plus B. The product of any factory may be considered as something which the public ought to be able to buy, although in many cases it is an intermediate product of no use to individuals but only to a subsequent manufacture ; but since A will not purchase A plus B a proportion of the product at least equivalent to B must be distributed by a form of purchasing-power which is not comprised in the descriptions grouped under A.

The above may be accepted as a complete statement of the theorem, since it is the passage reproduced in the *Douglas Manual* compiled by Philip Mairet, editor of *The New English Weekly*, and it is also quoted in a slightly condensed form by Major Douglas in *The New and the Old Economics*, as the introduction to his section dealing with the A plus B theorem.

It will be seen, from an examination of the passage, that it contains three sections—a preamble, an analysis and a deduction. To the first of these no exception need be taken. It can readily be agreed that any productive organisation has the twofold function of a distributor of purchasing-power to individuals and a creator of price values.

The analysis of payments made by such organisations under the headings of " A " payments made to individuals, and " B " payments made to other organisations, may also be accepted as correct, with the proviso that, under the heading " A payments," rent, interest and profits should be added to wages, salaries and dividends.

But to the deduction which follows in the italicised paragraph very definite exception must be taken. If we examine this paragraph in detail we shall see where its weakness lies.

“The rate of flow of purchasing-power to individuals is represented by A.”

This is perfectly true if “A” is allowed to consist of wages, salaries, dividends, rent, interest and profit, and if all such A payments, whether made by firms producing final products, or by organisations merely supplying intermediate products or services, are included. The source from which the consuming public draws its purchasing-power is not only the productive organisations which are directly supplying the market with goods for consumers to buy. The producer of semi-manufactures; the producer of raw materials; the manufacturer of plant and machinery; the building contractor; the power company; transport and distributive concerns; State and Municipal services, and even the banking system, are all concerned in the direct payments to individuals of wages, salaries, dividends, rent, interest and profit. If “A” payments are taken to include all income in the hands of individuals, from whatever source received, then, and then only, is it correct to say that the rate of flow of purchasing power to individuals is represented by “A.”

“Since all payments go into prices, the rate of flow of prices cannot be less than A plus B.”

The truth or error of this proposition depends entirely upon its interpretation. If the claim be that the rate of flow of prices cannot be less than all A payments plus all B payments *in all stages of production*, then it is clearly and demonstrably wrong. B payments are transferred payments which may reappear a number of times in different stages of production. The extent to which prices are affected by these transferred costs is not the sum of all their various appearances, but the built-up amount appearing in the last stage of production.

To use a simplified illustration: if a farmer sells grain to a miller, the miller sells flour to a baker, and the baker sells bread to consumers, the farmer will have B payments in respect of his seed, manures, machinery and overhead charges, the miller will have a B payment in respect of his purchase of grain from the farmer, and the baker will have

a B payment in respect of his purchase of flour from the miller. Now it will readily be seen that the farmer's B costs disappear into the miller's B costs, and the miller-cum-farmer's B costs are in turn absorbed into the B costs of the baker. The price of the loaf of bread which the consumer buys does not contain the sum of the B costs of farmer, miller and baker ; it merely contains the baker's B costs, because these B costs are in themselves inclusive, and are in fact baker-cum-miller-cum-farmer B costs. When, therefore, Major Douglas says " the rate of flow of prices cannot be less than A plus B," he is correct only if he means the A payments plus the inclusive B payments *appearing in the last stage of production only*.

The product of any factory may be considered as something which the public ought to be able to buy, although in many cases it is an intermediate product of no use to individuals but only to a subsequent manufacture.

If words have any meaning this implies that the public, as consumer, ought to be able to buy both raw material and finished article—that in addition to buying the bread from the baker, consumers ought to be able to buy the flour from the miller, the grain from the farmer, and even the plant and machinery used in all stages of production. If this is what Major Douglas means it is sheer unadulterated nonsense. If it is not what he intends to convey his phraseology is almost inconceivably careless and misleading.

In the sense in which final products are compact of all the plant and materials consumed in their production, the consumer may be said to be concerned with intermediate products, but in precisely the same sense the A plus B costs of the final stage of production are compact of the costs of all intermediate products consumed during the various processes of production. In other words, the consumer is not concerned with plant, machinery and intermediate products as such ; he is only concerned with the fractional part of these which he is indirectly consuming when he consumes the final products. Equally, he is not called upon to pay for plant, machinery and intermediate products as such,

he merely pays for the fractional parts which have gone into the production of the goods he consumes.

Major Douglas is entirely wrong therefore when he suggests that the public, by which undoubtedly he means the consuming public, ought to be able to buy intermediate products which are only useful to a subsequent manufacture. They do not need to be able to buy the product of every factory; they require only to buy the product of *those factories which are producing final products*, and in doing so they are in fact buying the only portion of intermediate products with which they are concerned.

It is perhaps significant that the passage we have last been considering is omitted from the statement of the theorem which Major Douglas reproduces in *The New and the Old Economics*. Possibly this was because he felt he could no longer defend this particular passage. But since he has never publicly repudiated it, we have felt it advisable to deal with it as part of the theorem.

But since A will not purchase A plus B a proportion of the product at least equivalent to B must be distributed by a form of purchasing-power which is not comprised in the descriptions grouped under A.

Now what can these words mean other than that Major Douglas is claiming that the "A" costs in prices are equal to the whole of the purchasing-power in the hands of consumers, and that consequently the whole of the "B" costs in prices represent a deficiency which must be made up from some other source? His contention is, that the rate of flow of prices (A plus B) is equal to a combination of the rate of flow of purchasing-power to individuals (A), plus the rate of flow of all B payments. When it is remembered that "B" represents "all payments made to other organisations (raw materials, bank charges and other external costs)" it will be seen that he is claiming that consumers have no money with which to meet costs appearing in prices in respect of raw materials, bank charges and other external costs, and that consequently they must be supplied with the equivalent of all these items from some other source.

Now if consumers received wages, salaries and dividends, solely from concerns producing final products, Major Douglas' theorem would be perfectly correct. The prices of those final products would contain A costs equal to wages, salaries and dividends, plus B costs in respect of all payments made to other organisations, and the final products could not be bought by consumers unless they were supplied, from some other source, with additional purchasing-power equal to the sum of these payments to other organisations.

But the income of consumers is *not* derived *only* from the wages, salaries and dividends distributed by the manufacturers of final products. It is made up of payments received from organisations concerned in all stages of production irrespective of whether those organisations are producing final products for consumers to buy, or whether they are only concerned in an intermediate process.

The real position is that if the rate of flow of purchasing-power is represented by A, and if A is taken to include all payments to individuals made by all stages of production, then the rate of flow of prices is that portion of A which is distributed by the final stage of production, plus the B costs incurred by the final stage. The remainder of A payments, that is, all wages, salaries, dividends, rent, interest and profit, distributed by organisations not producing final products, may equal, and normally do equal, the B payments of the final stage of production.

If it be argued, therefore, that prices contain *all* A payments, it cannot at the same time be maintained that they contain B payments. On the other hand it may be contended that prices do contain the B payments of the final stage, but it cannot at the same time be argued that they contain *all* A payments.

The matter may be stated thus. Let it be assumed that only the final stage of production makes payments to individuals; then, since prices are composed of the A plus B costs of the final stage, the position will be as indicated in the latter part of the theorem. Alternatively, if it be admitted that all stages of production make payments to individuals, but assumed that the prices of final products

include the A plus B payments of all stages of production, Major Douglas will, on that hypothesis, be correct in his deductions. But neither of those assumptions is correct. On the contrary, consumer income is derived from all stages of production, and the costs which consumers are required to meet are the total costs of the final stage of production only.

The position will, perhaps, be made clearer if we revise Major Douglas' formula in the following manner so as to bring it into conformity with the facts.

Let A equal all payments to individuals.

Let a^1 equal payments to individuals made by final stage.

Let a^2 equal all payments to individuals made by other than final stage.

Therefore a^1 plus a^2 equals A.

Let B equal all payments made to other organisations.

Let b^1 equal payments to other organisations made by final stage.

Let b^2 equal all payments to other organisations made by other than final stage.

The rate of flow of purchasing-power is represented by a^1 plus a^2 equals A.

The rate of flow of prices is represented by a^1 plus b^1 .

Then if b^1 be equal to a^2 , a^1 plus b^1 will equal A.

It will be seen that this formula demonstrates that if the B payments of the last stage of production do not exceed the sum of the A payments of all previous stages of production, there will be no deficiency. We shall endeavour to show, in due course, that these B payments made by the final stage are, in normal circumstances, no more than the equivalent of the A payments distributed by organisations not directly concerned in the production of final products—that they are, in effect, the A payments of other organisations, carried forward into the costs of the final stage.

At the moment, however, we are considering the validity of Major Douglas' A plus B theorem and we find it to be indefinite in its terms and entirely erroneous in its deductions. The facts are, indubitably, that purchasing-power is derived from all stages of production, but prices consist

of the A plus B costs of the final stage only. It follows in consequence that when Major Douglas declares that A will not purchase A plus B, he should mean that A derived from all stages will not purchase A plus B in the final stage ; a proposition that is completely unproved, and in our contention is incapable of proof.

His final statement that " a proportion of the product at least equivalent to B must be distributed by a form of purchasing-power which is not comprised in the descriptions grouped under A," would imply that the A costs included in prices are equal to the whole of the income received by consumers. There is, in our view, no doubt whatever that when Major Douglas first put forward the A plus B theorem, his contention was that the income of consumers was no greater than the A costs included in prices, and that *these A costs did not include such items as raw materials, semi-manufactures, and overhead charges*. Whether he arrived at this conclusion because he overlooked the fact that wages, salaries and dividends are derived in part from organisations not producing final products, or whether he failed to see that prices consist only of the total costs of the final stage of production, is a question with which we shall deal more fully in the following chapters. There is little doubt, however, that he fell into one or other of these errors.

Some Social Crediters would in all probability retort that such a statement is based on a misunderstanding of the theorem. That Major Douglas meant neither of these things, and that the kernel of his whole contention is that industry is being very largely financed by loan capital, provided by new credit, which is prematurely retired on repayment. They would explain that if a manufacturer obtains a loan from his bank, and uses it in his business, he has to recover it again from consumers in order to repay the bank.

But, they would say, the goods produced by the aid of this loan will come on to the market only at a later date, and when they do appear they will contain in their price the amount of the bank loan which has already been retired. According to Major Douglas this process means that con-

sumers are continually being called upon to meet costs after the money has been withdrawn and cancelled.

This process will be examined in detail at a later stage and we shall show that Major Douglas is mistaken in the assumption which he makes. But at the present juncture we are concerned with the building up of prices in an endeavour to discover whether they contain any sums which have not been paid to consumers. Major Douglas is at times ready enough to admit that consumers receive purchasing-power equal to prices "at some time or other." But he then proceeds to put forward arguments and assertions which depend for their validity solely on an assumption that consumers do not receive sufficient spending power *at any time*.

Social Crediters fall into the error of imagining that they have sufficiently demonstrated a deficiency of purchasing-power by showing that bank loans are repaid before the goods which they have brought into existence are sold. It is typical of much of their reasoning that they too hastily reach a conclusion without troubling to put it to a practical test. The obvious proof in this case is to examine prices at the point where they are actually built up and see whether (a) they contain any sums which are not distributed to consumers and (b) whether the volume of unused purchasing-power is reduced by any process which does not involve the consumption of an appropriate quantity of final products. Unless prices are inflated by sums which have not reached consumers as purchasing-power or, alternatively, unless the volume or the value of purchasing-power depreciates whilst in the hands of consumers, the deduction which Major Douglas makes cannot be correct and the circumstance to which he has directed attention requires an interpretation other than that which he places upon it.

The truth is that when the loans are repaid the process does not necessarily reduce the value or the volume of purchasing power; under normal circumstances it merely transfers purchasing-power from one set of consumers to another set of consumers. Subject to an adequate demonstration of this point, which we shall later submit, we there-

fore maintain that the fact that prices consist only of sums which have been paid out to consumers as purchasing-power is a sufficient proof that the correct relation is preserved between purchasing-power and prices, and the circumstance that industrialists are able to repay their bank loans before they have recovered their costs is capable of an interpretation quite different from the one Major Douglas places upon it.

It seems probable that the criticisms to which the theorem has been subjected must have demonstrated to many Social Crediters that, in its original form, it was seriously inaccurate. Indeed, many of Major Douglas' supporters are impatient of any discussion of A plus B. Yet Major Douglas could not abandon it, because whatever advice in that regard may have been tendered by his supporters, he himself realised that it was the linch-pin of his whole economic theory. His dilemma was that he could neither justify the theorem nor discard it. If under those circumstances he decided to maintain the theorem in general terms whilst avoiding a detailed defence of its provisions, it could scarcely be a matter for surprise.

CHAPTER III

MORE LIGHT ON THE THEOREM

THE RATE OF FLOW ARGUMENT

At least one objection to the theorem was foreseen by Major Douglas, and it is necessary at this point to deal with his method of meeting it, because it gives a clue to what was in his mind when he formulated the theorem. On pages 24 and 25 of *Credit Power and Democracy*, following closely on his statement of the theorem, he says :

In considering the above arguments, let not the patient reader allow himself to become confused by the fact that B has at some previous time been represented by payments of wages, salaries, and dividends. While this is of course true, it is quite irrelevant—it is the rate of flow which is vital. The whole economic system is in ceaseless motion—purchasing-power is constantly flowing back from individuals into the credit system from whence it came, and if the outflow is less than the inflow, someone has to lose purchasing-power.

Now if Major Douglas had taken what is undoubtedly the only rational view, that is, that consumers' incomes are derived from all A payments, and prices consist of the A plus B payments of the final stage of production only, he would have realised that this "rate of flow" argument has no value whatever. It can readily be admitted that the B payments of the final stage—although represented at some previous time by A payments—have been distributed and spent ; but this provides no support for Major Douglas' views. So long as production is continuous, each stage will constantly be repeating its distribution of A payments in the process of replacing its stocks.

If we return for a moment to our illustration of the production of bread, it will be realised that in the same week in which the baker is putting his loaves on the market at a

price which includes his A payments, plus his B payment to the miller, the miller will be distributing A payments in order to replace his stock of flour, and the farmer will be distributing A payments in order to replace his stock of grain. Under normal circumstances these payments for replacement will equal the B payments appearing in prices, and so long as this is the case, the volume of available purchasing-power will equal the volume of current prices. The organisation of industry in stages necessarily involves that the purchasing-power available to buy the final products coming on to the market is, to a very large extent, distributed in respect of the production of final products which will not come on to the market until a later period, but provided the process is continuous no deficiency is thereby caused.

If, in a selected week, the farmer distributes £50 in producing grain, the miller distributes £50 in milling flour from grain which he has previously bought from the farmer for £50, and the baker distributes £50 in making bread from flour which he has previously bought from the miller for £100, consumers will, in that particular week, be receiving £150 with which they can buy the bread priced at £150. The illustration is, of course, simplified by the exclusion of numerous items which normally appear in prices, but given a productive system which is continuously repeating in all its stages, the result arrived at is that the stream of A payments can, in any given period, be equal to the A plus B payments of the final stage. Since it is indisputably true, therefore, that the prices of consumption goods are composed of the A plus B payments of the final stage only, it becomes an easily demonstrable fact that the A payments distributed by intermediate stages in the process of replacing their stocks can equate the B payments in the final stage which represent A payments previously distributed and spent. On this hypothesis, therefore, the rate of flow argument is invalid because so long as production is continuous the rate of flow of A payments will tend to equal the rate of flow of prices.

Now Major Douglas must be aware of the continuous flow

of A payments. He doubtless realises that a constant stream of A payments is flowing to consumers from every organisation concerned in production, yet he can say, "purchasing-power is constantly flowing back from individuals into the credit system from whence it came, and if the outflow is less than the inflow, someone has to lose purchasing-power." The question arises, how does he become convinced that the outflow to consumers is less than the inflow to the credit system? In order to reach this conclusion he must undoubtedly disagree with the hypothesis we have made, either on the grounds that it overestimates the volume of purchasing-power, or that it underestimates the volume of prices.

But nowhere does Major Douglas appear to dispute the continuous stream of purchasing-power from all stages of production; indeed, it is so self-evident that it requires no proof. Clearly, then, his disagreement must be with the other side of the hypothesis. If prices are greater than this constantly maintained volume of A payments, it can only be because they contain something other than the A plus B payments of the final stage. Is this really Major Douglas' assumption? Does he view the A plus B payments of *all* stages of production as costs which the consumer has to meet, and in consequence believe that, somehow, the sum of all these costs must eventually be taken from consumers in prices?

There are valid grounds for believing that this was the assumption originally underlying the A plus B theorem, and yet it is an assumption which quickly collapses before an examination of the facts. If we consider once more our illustration of farmer, miller and baker, it will be seen that the farmer's total cost disappears as a separate item of cost as soon as it is merged into the miller's inclusive cost, and the miller's total cost is in turn cancelled by its inclusion in the bill of cost finally presented to the consumer by the baker. Although the building up of industrial costs is a much more complicated process than that outlined in this simplified illustration, the principle involved is the same throughout. The B costs of the final stage must be inclusive

of every prior cost incurred in the production of the final product and the only bill of cost which is presented or can be presented to the consumer is that compiled by the final stage.

A. W. JOSEPH ON THE THEOREM

That Major Douglas really assumes that the A plus B payments of all stages collectively represent the cost to be charged against consumers receives striking confirmation from a source which—from a Social Credit point of view—may be considered irreproachable. Mr. A. W. Joseph is the author of a pamphlet dealing with technical aspects of Social Credit entitled *Banking and Industry* which was enthusiastically commended by Major Douglas, and he has also written an examination of the A plus B theorem published by the New Age Press. In the latter pamphlet Mr. Joseph makes it clear that in his view this is the conception of the theorem which was originally in its author's mind. During the course of his argument he reproduces the diagram (opposite) by the late Mr. Adamson, which was published in *The New Age* of December 28th, 1933.

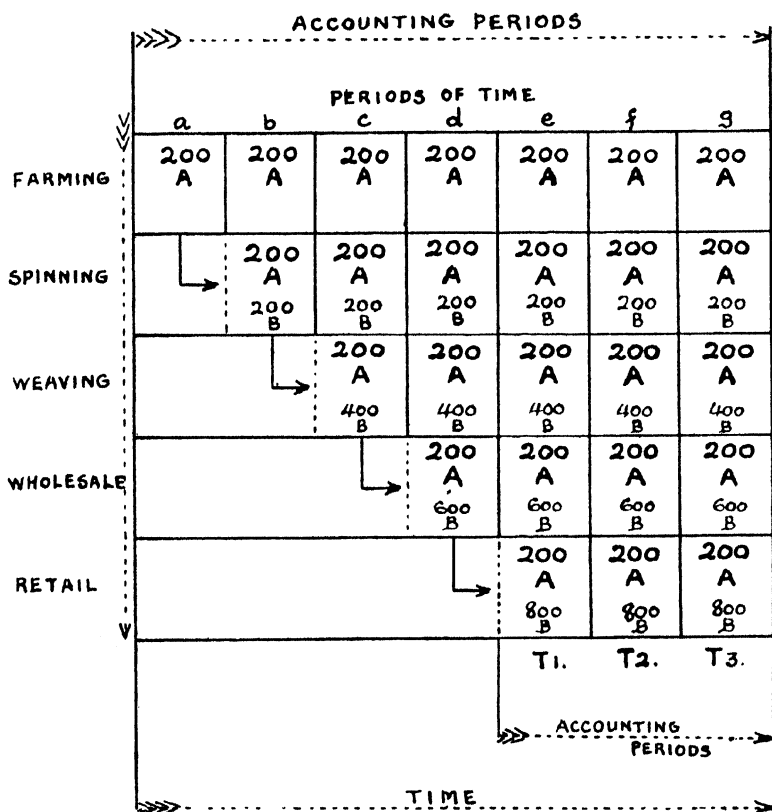
In connection with this diagram he says :

Consider what Douglas says, "Now the rate of flow of purchasing-power to individuals is represented by A, but since all payments go into prices, the rate of flow of prices cannot be less than A plus B." Take period *f*. The distribution of A payments is 1,000. The costs added to all the goods which are in course of production in the same period are 200 plus 400 plus 600 plus 800 plus 1,000 equals 3,000. There is here a deficiency of 2,000 and this deficiency will emerge later on as an actual deficiency between A payments and the costs of final consumable goods as can be seen by tracing out the subsequent history of the goods which were in course of production in period *f*.

On page 14 of his pamphlet, Mr. Joseph says :

The interpretation of the A plus B theorem discussed above is the one where A means the payments made to individuals in all stages of production, semi-finished goods as well as finished goods, and B means the payments made to institutions in all stages of production. . . . Now though all this is unquestionably true and is the way in which Major Douglas first perceived the A

— ADAMSON'S DIAGRAM —



plus B theorem (some Social Crediters would say that no one has any right to place any other meaning on the theorem), it is open to a critic to contend that although a deficiency may be inherent it will never emerge unless new production is stopped, and we have no right to assume that such will happen.

The above quotations certainly convey that in Mr. Joseph's view the original intention of Major Douglas was that the theorem should be interpreted to mean that the A plus B payments of *all* stages go into prices. Yet an

examination of the facts is bound to disclose that such a conception is farcically incorrect. Let us apply such an examination to the period "*f*," of the diagram, to which Mr. Joseph refers.

In the first place we find that the farming stage distributes 200 units of A payments. Now the product which these A payments have brought into existence will be sold to the spinning stage, and because the spinning stage has to acquire this product from the farming stage at a cost of 200 units, the 200 units appear in its costs as a B payment. But the receipt of payment by the farmer has terminated his interest in the transaction. He no longer has any claim either on the spinner or on the consumer in respect of the particular portion of product for which he has been paid. He has sold out his claim on the ultimate consumer, to the spinner, who has in consequence transferred the claim from the farmer's account to his own account in the form of a B payment.

Now let us follow the matter a step further. The spinner adds his process to the wool which he has acquired from the farmer and in so doing makes A payments to his employees to the extent of another 200 units. The consumer's liability at this point is for 200 units of cost incurred by the farmer and 200 units of cost added by the spinner. Precisely because the spinner has assumed responsibility for the farmer's cost by paying the farmer for his product, the farming cost disappears and the spinner's accounts contain all the costs for which the consumer is liable up to this point.

But the spinner, because he is an intermediary and does not deal with the consumer direct, proceeds to pass on his claim. He does so by selling his product to the weaver for 400 units, and in his turn drops out of the transaction. The weaver, taking over this cost of 400 units, adds his own cost of 200 units and the transaction stands recorded in his accounts by an A payment of 200 units to his own workmen, and a B payment of 400 units representing the combined costs of farmer and spinner.

The wholesaler next comes into the picture and by virtue

of a payment of 600 units to the weaver he becomes the owner of a claim on the consumer for 600 units. He adds his own cost of 200 units by the distribution of that amount of A payments to his employees, and the claim against the consumer stands at 800 units. Lastly the retailer acquires this claim by purchasing it from the wholesaler for 800 units, and adds to this sum a further 200 units, part of which he distributes to his salesmen, and part of which may be earmarked for distribution as dividends or profit.

Now it is surely demonstrated beyond the possibility of dispute that at each successive stage the whole of the costs extant are mobilised in the accounts of the organisation last concerned, and by this mobilisation they are cancelled from the previous stages. When Mr. Joseph, illustrating the argument of Major Douglas, adds up the costs of "*f*" period and brings the total to 3,000 units, he is really including the farming cost five times, the spinning cost four times, the weaving cost three times, the wholesale cost twice, and the retail cost once. The facts are, of course, that the farming cost is disposed of by its re-inclusion as a B payment in the spinning stage; the total spinning costs of 400 units are disposed of by their inclusion as a B payment in the weaving stage; the total weaving costs of 600 units are similarly disposed of by their inclusion in the wholesale stage, and the total wholesale costs of 800 units are disposed of by their inclusion in the retail stage. In period "*f*" of the diagram total costs appearing in prices would not be 3,000 units, but 1,000 units, the total A plus B costs of the final stage, and the 1,000 units of A payments distributed in the period would be adequate for the purchase of the goods.

For those who prefer diagrammatic explanations the diagram (page 34), which illustrates the progressive dropping out of costs and their mobilisation in the final stage, is offered in substitution for the Adamson diagram reproduced on page 31. An examination of this alternative diagram will show that it differs from the Adamson diagram in respect of the fact that it includes, in addition to the B costs incurred by the organisations receiving the raw material or semi-

PERIODS OF TIME

manufactures, the corresponding B payments *received* by the organisations parting with those goods. In consequence, B payments are demonstrated to be merely transfer payments which do not affect the amount of the charge which will ultimately be made against consumers.

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 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 the 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.

It requires very little examination to detect the fallacy contained in the above passage. Only a minority of businesses are directly concerned in the production of final products, but all businesses are distributing "inside" or "A" payments and the total of *all* inside payments will normally equal the combined inside and outside payments of the firms concerned in the final stage. The co-called "outside payments" are in fact the "inside payments" of a previous stage.

It is undoubtedly true, as H. M. M. says, that the people in any business cannot buy all the produce of the business. But what of that? If the business is concerned in the production of raw materials or intermediate products, they do not need to buy them. If it is concerned in the manufacture of consumers' goods its product will require to be distributed amongst *all* the people employed in industry, including those branches of industry which are not placing consumers' goods on the market. If the people employed in the final process were able—as H. M. M. thinks they should be—to buy and consume the whole of their product, it would be extremely unfortunate for the people employed in all the earlier processes, since after contributing their share of effort they would receive no share of the final product.

But the full significance of this quotation lies in the fact that Major Douglas, in his preface to the pamphlet, says :

Many attempts to simplify the thesis have been made. Some of them have been simple without being sound ; some of them have been sound without being simple, and numbers of them have been neither sound nor simple. I believe that H. M. M. has achieved both soundness and simplicity.

We have Major Douglas' assurance therefore that the passage is sound Social Credit doctrine. We think that most readers will agree that it is also transparent nonsense.

If the foregoing argument has been carefully followed through, the basic proposition upon which Major Douglas builds his case, and on which he places such reliance as to declare that the fate of a civilisation depends on it, will be seen to be a most insecure foundation. There can be little doubt that a partial realisation of the fundamental weakness of the A plus B theorem has driven many Social Crediters to doubt its value and to avoid its defence. Yet the theorem is the concrete expression of Major Douglas' belief in an inherent deficiency of purchasing-power, and the Social Credit case without that inherent deficiency is like " Hamlet " without the " Prince of Denmark."

Major Douglas' view of how deficiency occurs is that prices are continually being inflated beyond the sum of *all* A payments by the additional inclusion of B payments, and his curious conception of the operation of the banking system enables him to believe that these B payments, after swelling the volume of prices, short-circuit the consumer and pass out of the system as repayments of bank loans. Because he was convinced of this, he could say, " since A will not purchase A plus B a proportion of the product at least equivalent to B must be distributed by a form of purchasing-power which is not comprised in the descriptions grouped under A." Yet the plain logic of the facts is that B costs appear in prices only in substitution for A payments, which have already been distributed to consumers. When the costs of an article are assembled in the final stage, the costs of all prior stages have no more value, from an accountancy point of view, than the records of old debts which have been cancelled by payment.

It may be said by some Social Crediters that the theorem

was never intended to support such a nonsensical proposition as that the B payments of *all* stages are included in prices. Yet it is the only proposition which is really consistent with the language of the theorem and with the attempts which Major Douglas has made to elucidate it. It is true, however, that such an interpretation would be repudiated by many Social Crediters, and their objection might be expressed in language similar to the following.

When Major Douglas declares that A will not purchase A plus B, he is not referring to the B payments of earlier stages which have been incurred in respect of the final products which are actually in the market ; he means the B payments in respect of future production which, up to that period, have been incurred by producers but have not yet been recovered from consumers. These apologists might go on to say : It is of course true that the loaf of bread which to-day is bought in the shop does not include, in its price, the B costs of farmer and miller in addition to the baker's inclusive B costs. But it is also true that concurrently with the production of bread, new B costs have been incurred by farmer and miller, and there is no purchasing-power available to liquidate these costs.

Although both farmer and miller are distributing purchasing-power in respect of their production of grain and flour, the whole of this purchasing-power is required in order to liquidate the costs already assembled by the baker. It is therefore correct to say that costs have been incurred on account of semi-manufactures, raw materials, machinery, plant and overhead charges of various kinds, which consumers will eventually be called upon to meet, but in respect of which no further purchasing-power will be issued to them.

This is almost certainly the claim that many Social Crediters would make, and they would urge that it is the process which Major Douglas had in mind when he said in *Credit Power and Democracy*, page 30 :

Consequently, and this is the all-important point we wish to make, although the unregulated system of credit-issue and price-making distributes purchasing-power both in respect of capital production (tools, factories, intermediate products), and ultimate

products (necessaries, services, amenities), it takes back in the prices of ultimate products only, practically the whole of this purchasing-power, leaving the community, considered as a permanent institution, in the position of having bought both the plant and the product, but having only got delivery—i.e. control—of the product.

Now the obvious reply to this argument is that if it really expresses Major Douglas' meaning, he displayed an extraordinary lack of precision in the language of his theorem. Let it be remembered that his statement is that "since all payments go into prices, the rate of flow of prices cannot be less than A plus B." It was, presumably, because he believes the rate of flow of prices to be governed by the rate of flow of A plus B costs that he could say "since A will not purchase A plus B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing-power which is not comprised in the descriptions grouped under A."

If the interpretation which we have been considering is in fact the one which Major Douglas intended, his ideas of prices and costs must have been in an extraordinary state of confusion. For the argument merely leads to the conclusion that the rate of flow of *costs* cannot be less than A plus B, and the assumption that the rate of flow of prices is the same as the rate of flow of costs is entirely unwarranted.

If we may be permitted to paraphrase a passage—already referred to—from *Credit Power and Democracy*, the matter may be expressed thus: Let not the patient reader allow himself to become confused by the fact that B costs are accumulating faster than the consumer is capable of meeting them. While this is of course true, it is quite irrelevant—it is the rate of flow of *prices of consumption goods* which is vital. The whole economic system is in ceaseless motion—purchasing-power is constantly being distributed to individuals and constantly flowing back in prices, and if the inflow of prices is no greater than the outflow of wages, salaries and dividends there need be no shortage of purchasing-power.

Major Douglas, in his theorem, was concerned with the rate of flow of prices—the only matter of concern for consumers. The apologists whose views we have been considering make him concerned with industrial costs, and in so doing they make the theorem meaningless.

In Chapter VI we shall describe in greater detail the creation of industrial costs and their significance to the consumer. At this stage we are concerned to make the point that the rate of flow of A plus B costs is not the same as the rate of flow of prices. Although it is true that the present system of production involves that there is always an accumulation of industrial costs which, at the moment, consumers cannot meet, these costs are simply the material out of which capital ownership has been built and the assumption of responsibility for them, by the existing capital owners, gives them their title to ownership. In other words the accumulation of industrial costs in the hands of the owners of capital is a necessary feature of the system of private ownership of the means of production and exchange, and this system Major Douglas accepts and fully approves.

We have dealt very fully with the various interpretations of the A plus B theorem because so far as Major Douglas is concerned, it is admitted to be a vitally important proposition. It remains for us to examine the later attempts by Major Douglas and certain of his supporters to reconstruct the Social Credit thesis on a more realistic basis.

CHAPTER IV

MAJOR DOUGLAS' DEFENCE OF THE THEOREM

IN his pamphlet *The New and the Old Economics*, to which reference has already been made, Major Douglas gave a considered reply to the criticisms of Professors Copland and Robbins. After repeating the statement of the theorem which we have recently been examining he continued as follows (page 9) :

The A plus B theorem, then, may be said to be, firstly, an assertion that, under certain circumstances, almost universal in modern industry, which will subsequently be specified, purchasing-power cannot be equal to prices, if purchasing-power and prices are both considered as a flow, which is the commonly accepted and correct method of regarding the matter. The second aspect of the theorem is that it puts forward an explanation as to the mechanism through which this disparity is produced. Obviously, the correct method of approaching the subject, although not that employed by professional economists, is first of all to ascertain if the situation does, in fact, confirm the theorem. Now, fortunately, or unfortunately, it is not necessary to seek very far for this confirmation. I do not suppose that Professor Copland, or any responsible student of the economic situation, would deny that it is concerned with a problem of glut, still less would he contend that it was a problem of scarcity. It is admitted that we can produce all we want, but cannot buy or sell to the extent of our productive capacity. Without going over the well-known ground covered by the literature of sabotage, such as the burning of wheat as fuel because it cannot be sold or to keep up the price, the destruction of millions of bags of coffee, the shooting of calves on the Argentine plains, the restriction of rubber tapping, and merely emphasising that this glut of actual consumable products does not take into account the immense unused productivity represented by half-idle factories, large bodies of unemployed, decreasing cultivation of farm lands, and unused processes for increasing the productivity of agriculture, to name only a few of these aspects of the matter, it is quite certain that the introduction of mechanical power into the

economic service of man has at least multiplied his productive capacity by the ratio of his muscular energy to the power at his disposal, that is to say, at least fifty times.

There is a good deal more in the same strain, and it would seem that Major Douglas is rather excessively anxious to shift the defence of his theorem on to this negative ground. His argument appears to be that, because the industrial and financial systems are not functioning as efficiently as they ought to be functioning, this fact constitutes a confirmation of his theorem. In reality the case which he makes out is merely a case for examination. It may be accepted as demonstrating that some fault exists, and as indicating the scope and the effect of that fault, but it cannot be accepted as a justification of a specific remedy. The existence of a disease indicates the need for a cure and warrants the examination of any proposed method of treatment, but it is not in itself a justification of a *particular* treatment.

If Major Douglas was defending his right to have his particular remedy examined he would do well to emphasise the existence of conditions requiring such a remedy. But his right to have his proposals examined is not in question. What *is* in question is the correctness of his diagnosis and the value of his remedial proposals. His insistence upon facts which are common ground to reformers of whatever type is therefore beside the question when the point at issue is the value of his own contribution.

When Major Douglas leaves these general considerations and comes down to the particular issue involved, he commences by quoting Professor Copland as follows :

Taking the first part of this argument, it is assumed that the so-called B payments are not distributed to consumers. This I believe to be the fundamental fallacy of the Douglas Credit Analysis.

Now although it may be conceded that Professor Copland was not stating Major Douglas' assumption with complete accuracy, the reply of Major Douglas is more interesting for what it asserts than for what it denies. He says :

I think I am justified in retorting to the second sentence just quoted that I think the first sentence is conclusive evidence that Professor Copland does not understand the Douglas Credit Analysis. The B payments to which he refers are specifically stated in the enunciation of it, to be payments made from one producing organisation to another, and are, beyond dispute, the completion of a cycle of cost accountancy. I trust Professor Copland will not consider me unduly elementary if I explain that a cost is created *either* by the application of paid labour to production *or* by the allocation of book costs in respect of previously incurred expense, or by both together. Payments to labour distribute purchasing-power to consumers, who supply the labour as workers, *and create* costs which go into prices of the goods that they produce. The allocation of book costs does not distribute purchasing-power, but is the presentation of a claim on purchasing-power *already distributed*, and is met, if it is met, by the inclusion of the sum claimed, in price. B payments are a settlement of the combined claim produced in this way at every separated stage of production.

Whether or no Professor Copland considered Major Douglas "unduly elementary" or whatever his reactions may have been, it is fairly certain that one of the major fallacies which lead the author of the A plus B theorem to entirely wrong conclusions is contained in the statement, "a cost is created *either* by the application of paid labour to production *or* by the allocation of book costs in respect of previously incurred expense."

In this passage, Major Douglas appears to be expressing the extraordinary belief that the B payments of *all* stages represent additions to cost; for observe that his claim is that a cost is *created* by the allocation of book costs, and he concludes the passage quoted with the words, "B payments are a settlement of the combined claim produced in this way at every separated stage of production." It must be presumed that he refers to *all* B payments, and if so he can only mean that not only is a cost created by the original payment for labour, but a new cost is added every time the liability is transferred from one stage to another.

The very elementary fact is that only A payments create costs which increase the liability of consumers in respect of prices. B costs are merely transferred costs, carried from

one stage to another, and they are included in prices only to the extent to which they appear in substitution for A payments—belonging to prior stages—which payments are in consequence excluded from prices. This will be seen to be the case when it is remembered that prices consist of the total costs of *the last stage of production only*.

It follows therefore that Major Douglas' statement is incorrect, and what he should have said is that a cost is created by the application of paid labour to production, and costs are merely *transferred* by the allocation of book costs in respect of previously incurred expense.

Later, in the passage quoted, the statement is made that the allocation of book costs "is the presentation of a claim on purchasing-power *already distributed*." But to whom is the claim presented? When a producer makes a payment to another organisation and brings the sum into his accounts as a cost he is recording the fact that he has *acquired* an existing claim on consumers. For example, when the miller makes a payment to the farmer for grain he has taken over the farmer's cost and left him without any claim on consumers in respect of the grain he has sold. This claim may be sold to another producer in a later stage and may change hands in this way several times. Only when the B cost, at the end of its passage through the various stages, reaches the retailer, is the claim presented to the consumer. This is equally true whether the B cost is in respect of the purchase of raw materials or semi-manufactures, rent, lighting or power, bank and interest charges, or an allocation of capital costs in the form of depreciation charges.

In all these cases the allocation of the book cost is simply the recording of a claim on consumers; the *sale of final products to consumers* is the ultimate presentation of the claim.

Major Douglas then proceeds to give an illustration which still further indicates his own confusion of thought. He says:

Let us suppose that production is divided into five processes, all of them in progress at the same time. Each of these five processes pays its workmen weekly, and each pays £10 in wages. Each one of the factories carrying out the five processes allocates

100 per cent on to its direct labour in the form of book charges, which is a very moderate average overhead charge. For the moment we will leave out payments for materials. The total amount of wages distributed in the week is £50. It seems to me merely perverse to deny that the price values or claims on the public created in that week are £100 while the purchasing-power distributed is only £50.

He then proceeds to define the overhead charges and says :

To make the matter as simple as possible, I shall, for the moment, assume that overhead charges are nothing but charges for the use of buildings and plant, and at a later stage explain how this definition can be extended.

Now, in the first place, it should be observed that, in this illustration, Major Douglas has abandoned, for the time being, his general argument regarding B costs. The complete application of his theorem to such an illustration of production in five stages would involve that the first stage has A plus B costs of £20, the second stage A plus B costs of £40, the third stage A plus B costs of £60, the fourth stage A plus B costs of £80, and the fifth stage A plus B costs of £100. If we adopted Mr. Joseph's method of calculating the total costs we should say costs are £20 plus £40 plus £60 plus £80 plus £100 equals £300, and this would undoubtedly be correctly inferred from Major Douglas' contentions that a B payment is a payment made by one producing organisation to another ; that a cost is created either by a payment of wages *or by the allocation of a book cost*, and that the latter does not distribute purchasing-power but is met by its inclusion in price.

He might therefore have been expected to claim—as Mr. Joseph would presumably claim on his behalf—that in this particular instance purchasing-power distributed was £50, and total cost £300. Yet he modestly refrains from stating his full claim, and is content to assess the price values created in that week at £100. Let us see how he arrives at this amount. £50 is, on his own showing, distributed as wages, by the five processes, the remaining £50 represents overhead charges for the use of buildings and plant, each firm allocating an equal portion of this sum.

Now, in setting out the terms of his illustration he says, "Let us suppose that production is divided into five processes." The postulate is important. The processes in review must cover the whole of production if there is to be no flaw in the argument. If the calculation of consumers' income is limited to these five processes, obviously the calculation of costs against consumers must be limited to costs created by the same five processes, otherwise the illustration will be valueless. To put the matter in another way: if costs created by a process additional to the five under review are brought into the calculation, the purchasing-power derived from the additional process should also be brought into review.

What Major Douglas is really doing in this illustration is calculating the costs created by six or seven processes, whilst including only the purchasing-power distributed by five processes. The erection of buildings and the manufacture of plant and machinery, are just as much stages of production as the milling of flour, or the spinning of yarn and the weaving of cloth, and just as it is necessary to recognise that the milling, or the spinning and weaving stages are continuously distributing wages, salaries, dividends and profits, so it is equally necessary to recognise that the organisations concerned in building erection and in the manufacture of plant and machinery are operating continuously, and distributing purchasing-power to their employees and their shareholders. By some curious mental aberration, Major Douglas has overlooked the fact that he cannot logically confine production to five processes and then assume costs which arise outside those processes in order to show an excess of costs over the purchasing-power distributed by the five processes. In other words he has arrived at his result by omitting an indispensable part of the equation—the purchasing-power derived from the organisations from whom his overhead charges are derived. Here again, Major Douglas, while professing to present a complete illustration of the flow of purchasing-power, actually omits a considerable portion of the stream.

Continuing his examination he discusses the methods by

which factories are built and equipped, and in the first instance deals with those cases where the capital production is financed out of savings. In this connection he says:

This is the simplest, but by no means the only, example of a sum of money appearing more than once in series or chain production, and producing a *cost* on each occasion without creating fresh purchasing-power.

We become concerned, here, with the general questions of saving and investment. These questions will receive detailed examination in a later section and it is not proposed therefore to deal exhaustively with them at this stage. It is sufficient to say here that Major Douglas is entirely wrong in stating that money saved and used for capital production *creates a new cost* without creating fresh purchasing-power. By an inversion of the facts he views as a cost and a debt what is in reality an asset. A community which increases its stock of capital goods is richer, not poorer, by the addition to its resources. It is true that within the present system of private ownership of the means of production the ownership of capital assets is enjoyed by that portion of the community which has provided the necessary capital, but here again it must be remembered that Major Douglas does not object to the private ownership of capital. Since he approves the system which permits a section of the community to be the owners of capital, leaving the remainder with no share in its ownership, he must agree that the community, as a whole, is richer when it adds to its resources. It is only when the capital goods are depreciated by their use in connection with the production of consumption goods that a cost *in respect of their replacement* arises. The production of capital goods creates an asset—the *consumption* of capital goods creates a *cost*.

The bill of costs actually presented to the consumer is the sum of all the costs incurred in respect of the final product which he consumes, and included in those costs is an item in respect of the fractional part of plant and equipment consumed in its production. The obligation placed on the consumer to meet the cost of depreciation of

capital assets is just as legitimate and necessary as the obligation to replace the raw materials consumed, and the source from which he meets the charge is the constant stream of purchasing-power distributed by the organisations concerned in the supply and maintenance of capital assets. Major Douglas is of course aware of this, but curiously enough he proceeds to make the mistake of viewing the *original* capital cost of plant, equipment and buildings as a cost which consumers will be expected to meet. The fact is that *existing* capital assets are not in any sense a consumer's liability. So long as they exist as the property of the owners of capital, the liability attaching to their creation rightly remains with the owners. The only liability, in respect of capital equipment, which falls on consumers is for the replacement of that portion of plant, machinery or buildings rendered non-existent through depreciation. This point is dealt with more fully in Chapter IX on "The Function of Capital."

After discussing the method of financing capital production by new credit issued through the banking system, as the alternative to saving and investment, Major Douglas reaches the conclusion :

It is therefore, I think, incontestable that, either wholly or in part, the purchasing-power to pay overhead charges on a scale which is legitimate from the plant owner's point of view does not exist, except in times of wholly excessive capital production or quite abnormal exportation.

Were it possible to accept his assumption that consumers have to pay for new equipment quite apart from the obligation to meet the cost of depreciation, this would be a logical deduction. But since his assumption is entirely wrong, the deduction has no justification. The "scale on which overhead charges are legitimate from the plant owner's point of view" includes the maintenance of the owner's capital, but it does not include reimbursement for his original capital outlay. If it did the owner would have recovered his financial capital, and so have acquired the physical assets in which he invested it, for nothing.

Major Douglas goes on to claim that his conception of overhead charges as a cause of deficiency can be extended to include tools and intermediate products and he concludes by enumerating the following five causes of deficiency.

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

Commenting on the above, he says :

It seems obvious, therefore, that, with the exception of savings, the whole of the above causes of the difference between purchasing-power and prices can be found in B payments which are money ultimately on its way back to the bank, and none of them, with the exception of savings, are found in A payments, and if we subtract the A payments distributed in a given week minus savings from the total prices claimed in a given week, we shall get B payments as a measure of the net debt claims against the public for the week in question.

This, presumably, is intended by Major Douglas as a defence and a confirmation of the A plus B theorem. There could be no clearer case of "begging the question." If the A plus B theorem were a correct statement, it might also be true that deficiency arose under each of these five headings. Alternatively, if it were proved that deficiency did arise in each of the cases enumerated—indeed it would be sufficient to prove that it arose under number 4—it would follow that the A plus B theorem was correct. But since the claim that deficiency arises under each one of these headings, and particularly under 4, is as incorrect as the theorem is false, one cannot be quoted in support of the other.

Throughout the whole of the section of his pamphlet

devoted by Major Douglas to the A plus B theorem, there is no serious attempt to justify its wording and to prove its conclusions. To suggest that his reply had adequately disposed of the criticisms of Professor Copland would be to make a grotesquely exaggerated claim. Yet on page 26 of his pamphlet, under the heading of "The Just Price and the Price Factor," he says :

Professor Copland quite correctly states that this part of the Douglas theory follows naturally from the A plus B theorem, and it follows naturally that, as Professor Copland's criticism of the A plus B theorem is invalid, that his criticism of the price factor is also invalid.

Major Douglas appears to have a partiality for meeting criticism by the not very profound, but from some points of view unanswerable, controversial method of ignoring the criticism and countercharging his critics, for again, on page 28, under the heading "The Supply of Credit," we have the following :

As Professor Copland specifically states on page 22, "Major Douglas denies that there will be any increase in prices with an increase in the credit issued resulting from his application of the price factor. His denial would be valid if his A plus B theorem were correct, but this theorem is itself invalid." It will be seen, therefore, that the criticism of this section is really answered by the rebuttal of Professor Copland's criticism of the A plus B theorem.

Professor Copland's point here is perfectly sound. It is, of course, that the validity of the claim that prices will not be increased by the application of the price factor depends on the correctness of the A plus B theorem. Since it can be demonstrated that the theorem is incorrect the new credit which would be issued under the price factor proposal would be inflationary. Major Douglas professes to dispose of this criticism of the price factor by restating the disputed theorem.

Elsewhere in the same pamphlet he refers to

the well-known logical fallacy known as the *petitio principii*, which consists in assuming the truth of the fact which you have

set out to prove and then proving the assumption from the logical conclusion.

With this in his mind, it is significant that he supports his theorem by an equally unproved and unprovable statement that deficiency arises under each of the five headings which he enumerates and then assumes the correctness of his arguments in connection with the price factor and the issue of consumer credits from the assertion of the correctness of his theorem.

We have dealt in detail with the theorem itself. In the following chapter we shall examine the claim that deficiency arises under the five heads which he enumerates.

CHAPTER V

FIVE ALLEGED CAUSES OF DEFICIENCY

WE have seen that the Social Credit case is built upon an assumption that the present economic system involves a continuous deficiency of purchasing-power. We now propose to examine, in turn, each of the five causes of deficiency which Major Douglas has indicated.

(1) *Money profits collected from the public (interest is profit on an intangible).*

One of the most curious of Major Douglas' beliefs is that the inclusion of money profits in prices involves a claim on consumers for more purchasing-power than has been supplied to them. In *The New Age* of April 16th, 1931, he wrote :

It is quite evident that profits which form the reward of the investor and the *entrepreneur* in the form of dividends while they must be paid out of the costs recovered from the public, are never distributed at any time to the public.

What Major Douglas fails to recognise here is that profits and interest, although collected in the prices of final products, do not form part of the sum which goes back into industry to finance the next cycle of production. If, for example, an industrialist produces goods at a cost of £90 and adds £10 as his own profit, putting the goods on the market priced at £100, the workers who have received £90 in wages have the means to acquire nine-tenths of the goods and the producer retains the means to acquire the other one-tenth. If he consumed the tenth part of his own goods as his profit, he would still receive the £90 necessary to produce another similar batch of goods from the sale of the other nine-tenths, but if he puts the whole of his goods

on to the market he gets back his £90 of business capital plus £10 as his personal income, with which he can purchase the goods of another producer.

To take a simple illustration, suppose that "A" produces ten wireless sets at a cost of £9 each, and "B" produces ten bicycles also at a cost of £9 each. Both have distributed £90 as production costs, and both add £10 as their personal profit and put their products on to the market priced at £10 each. "A" could claim a wireless set and "B" a bicycle as their own share of the transactions, but instead "A" prefers a bicycle and "B" a wireless set. "A" sells nine wireless sets and receives back his original outlay of £90.

"B" sells nine bicycles and does likewise. "A" now pays £10 to "B" and receives in exchange a bicycle; "B" returns the £10 and receives his wireless set. "A" and "B" are now left with £90 each, and they can proceed to repeat the process and produce a further ten wireless sets and ten bicycles at the same cost of £9 per article.

Interest, as well as profit, is in every case merely a transfer of purchasing-power from one consumer, or group of consumers, to another. If Brown, having an income of £400 a year, borrows £100 of capital from Jones, whose annual income is the same, and pays him £5 for the loan for a year, then £5 of Brown's income is transferred to Jones, with the result that Jones for that twelve months has £405 to spend, while Brown has only £395. No shortage of consumer income is caused, nor is there any problem of "where is the money to come from." In fact Brown pays Jones for his services just as he would pay for the services of his doctor or his solicitor. Precisely the same procedure occurs in the payment of bank interest. Borrowers pay the bank for the service of their loans, and the bank distributes the money, partly in interest to depositors, partly in remuneration to its staff and in meeting its overhead costs, and the remainder in dividends to its shareholders.

The contention which Major Douglas makes that money profits and also interest are responsible for deficiency is so demonstrably unsound that it is unnecessary to pursue the matter further. Indeed many Social Crediters recognise

this fact and both *The New English Weekly* and *The New Age* have published statements admitting that profit in itself causes no deficiency.

(2) *Savings, i.e. mere abstention from buying.*

In the sense in which it is generally understood, saving is a part of the combined operation of "savings and investment." Major Douglas, however, includes investment separately as a cause of deficiency, and it may be presumed, therefore, that in the present instance he means something other than savings which go at once into investment, either by being turned directly into industry as new capital, or by being placed on deposit with the banks.

When the latter is the case the banking system will, unless it is pursuing a policy of deflation, at once take action which will have the effect of supplying new capital to industry. The consequence of the saving of purchasing-power and its payment into the bank as a new deposit will be an increase in the bank's cash. This will be so whether the payment is actually made in cash, or by cheque, for in the latter case that portion of the bank's cash which would have been drawn upon had the money been used as consuming-power will, instead, remain with the banking system. As a result bank loans will be increased and industry will be provided, directly or indirectly, with additional capital. When, at a later stage, the deposits are withdrawn and invested, the banks will reduce their loans accordingly.

The general effect of this arrangement is that when savings are placed on deposit pending investment, the banking system lends the money to industry during the interval between its deposit and its subsequent investment. Savings which increase total bank deposits are therefore equivalent to investment, and cannot be separated from investment as an alleged cause of deficiency.

There is one form of abstention from buying, however, which does not involve investment, and which Major Douglas may possibly have in mind, that is, the withholding of purchasing-power which is more correctly described as "hoarding." In any community there is always a certain amount

of purchasing-power immobilised in this way, but the amount of money so hoarded tends to be fairly constant, and although the community may have suffered an injury at the commencement, it must be assumed that prices have adjusted themselves to the circumstance that a certain proportion of the distributed cash is always being held out of use. So long as the amount of this frozen money does not increase no new deficiency will arise. Certain hoards will be broken up, and others will be accumulated, but so long as the total sum kept out of circulation remains the same the position of consumers as a whole will not be worsened.

If hoarding increases there will be a deficiency equal to the amount of the increase. If hoarding decreases there will be a surplus equal to the amount of the decrease. But there is no reason to suppose that the amount of money kept out of circulation through hoarding will vary considerably in either direction, and there certainly is no reason to assume that hoarding will be constantly on the increase.

It is clear, therefore, that although abstention from buying—when the abstention results from the hoarding of purchasing-power—does involve a deficiency, such deficiency is probably static, and has become a normal factor in the monetary system. Although it is true that an increase in the amount of money kept out of circulation in this way would involve a new deficiency, there is no reason to suppose that such an increase takes place, and even if it did take place the deficiency resulting from this cause would be too small to produce any very serious inconvenience.

(3) *Investment of savings in new works, which create a new cost without fresh purchasing-power.*

Major Douglas here indicates the grounds of his belief that investment involves a deficiency of purchasing-power. In his view the investment of savings creates a new cost without distributing fresh purchasing-power. He explains the point in detail on page 15 of *The New and the Old Economics* as follows :

Assuming this course to be pursued, the money to buy the plant must have appeared in the cost of some previous product,

and therefore its mere saving causes a deficiency of purchasing-power to that extent. If it is now applied to pay the wages, etc., necessary to produce the new buildings and plant, quite obviously these new buildings and plant are produced without the creation or distribution of any fresh purchasing-power. In other words, the money creates a second price value, but does not produce any fresh money. This is the simplest, but by no means the only, example of a sum of money appearing more than once in series or chain production, and producing a *cost* on each occasion without fresh purchasing-power.

In considering this passage it is necessary to keep clearly in mind the meaning of the terms employed. Purchasing-power is, of course, the total income of consumers, and this income is required for the purchase of consumption goods. Consumers are the members of the public in their capacity as purchasers and users of consumption goods. Certain of these same people may also, in another capacity, be producers or investors, but in speaking of the public as consumers, we are dealing with them in this capacity only. Major Douglas visualises a discrepancy between available purchasing-power on the one hand and the prices of the goods which consumers ought to be able to purchase on the other hand. Costs in this connection mean, or should mean, costs which consumers will be required to meet ; in other words the prices of consumption goods. The claim which he is making is essentially a claim that consumers cannot purchase all the goods in the market, because their combined income is less than the total prices of the goods which they should be able to purchase.

If investment did increase the total sum which consumers must pay in order to acquire all the goods in the market, without adding to the means of payment, or if alternatively it reduced the volume of spending-power without reducing the total prices of consumers' goods, it is true there would be a deficiency. In order to discover whether this is really the case, let us follow Major Douglas' argument through from the beginning.

The money is saved and "its mere saving causes a deficiency of purchasing-power to that extent." This overlooks the fact that in any given period, past savings, which

are being re-distributed by the process of new capital production, may equate the present savings, which are being withheld, from consumers. But for the moment it will be convenient to ignore this fact, and agree that savings of themselves create a momentary deficiency.

Major Douglas then proceeds a step further and follows the passage of this saved purchasing-power back to consumers in payments of wages, etc., necessary to produce the new buildings and plant. At this stage, therefore, the goods which were left unsold when the money was saved can be bought with the wages received from the production of the new buildings and plant, a fact which is admitted by Major Douglas. What, then, are the new costs which consumers cannot meet? Where are the additional goods which cannot be bought?

The only new price value is the value of the new buildings and plant, and it is true that consumers have received no money with which to buy these. But do consumers want to buy buildings and plant? Their concern is to buy consumption goods and Major Douglas' own argument admits that the purchasing-power necessary to buy those has been returned to consumers.

The case which he has stated is that although consumers can buy the goods which the saving of purchasing-power temporarily left unsold, they have created new capital assets which they are unable to buy. Yet this can hardly be his real meaning, for the buildings and plant have already been acquired by the investors who used their savings to purchase them, and if consumers were now supplied with purchasing-power sufficient to buy the capital assets a second time, the additional money would, for the most part, be applied to the purchase of consumption goods. Such an increase in demand for final products, before there was any increase in supply, would be certain to cause inflation with its resultant rise in prices.

Yet although the logical inference from Major Douglas' argument is that a deficiency is caused by the fact that consumers have no money for the purchase of capital goods, few Social Crediters would be prepared to claim that con-

sumers ought to be able to buy buildings and plant in addition to consumption goods. As we have already shown this would be giving to consumers as such the right to acquire the capital goods owned by private investors who had obtained them by sacrificing their alternative rights to consumption goods. In what way then do these capital costs create a deficiency? If consumers do not need to buy buildings and plant, how does the fact that they are brought into existence create costs against consumers, and why does their inability to meet them involve a deficiency? The answer that Major Douglas would make is that the costs of capital goods must be recovered from consumers in prices "since they form an overhead cost added to the price of ultimate products" (*Economic Democracy*, page 72); and as no additional money will be concurrently distributed in respect of such capital goods, these costs appearing in prices cannot be met.

Now it may be observed here that this means that the deficiency apprehended by Major Douglas is not a present deficiency, but a prospective one, and it is not unreasonable to point out that his language might with advantage have been much more explicit. But if this is what was intended the question now arises, at what point are consumers called upon to meet the cost of capital goods, and when, if at all, does the deficiency occur?

There is one sense in which it is true to say that costs of capital goods are passed on to consumers. Prices of all final products produced with the aid of buildings and plant must contain a charge on account of the wastage of capital assets. As a matter of convenience this charge is made under two, and sometimes three, heads. The first of these is maintenance, which covers upkeep, repair and overhaul; the second is a provision for replacement at the end of the life of the plant; while the third, which is generally but not invariably included, is a charge to cover obsolescence. These three charges, taken in conjunction, cover comprehensively the wastage of capital assets. The first ensures its full efficiency for the maximum period of time; the second provides for its replacement when it reaches the end of its

estimated life, and the third provides against the necessity for premature replacement through improvements in the design of plant and machinery or changes in process. In those cases where obsolescence is not specifically provided for, liabilities for the premature replacement of assets, due to this cause, would have to be met out of general reserves.

The object of these charges, *in combination*, is to maintain the capital invested in the assets at its full value, and in meeting them—provided, of course, they are not excessive—the consumer is doing no more than meeting the cost of the fractional part of buildings and plant *which has been consumed or rendered valueless in his service*. In other words, the consumer pays for capital goods which he has consumed, but he does not pay for *existing* capital goods. A great deal of confusion has been caused amongst Social Crediters themselves by Major Douglas' casual and inaccurate use of terms such as "depreciation" and "overheads." In consequence, certain of his followers who have no thorough knowledge of his real thought even go to the extreme of arguing that ordinary maintenance charges cannot be collected because they are not distributed.

Now it is true that depreciation charges have the effect of adding to total prices of consumption goods an amount which is not included in the wages, salaries, dividends and profits distributed in connection with the production of raw materials, semi-manufactures and final products. If consumers' income was derived from these sources alone, there would be a deficiency equal to the amount of the depreciation charges. But consumers' income is not limited to the sums received from these sources. Just as there is a continuous stream of depreciation charges entering into the prices of final products, there is also a continuous stream of payments flowing to consumers for services in connection with the maintenance of plant and for making replacements. So long as the total volume of capital assets is maintained, the payments to consumers for making the necessary replacements and repairs will equal the sums charged to consumers as depreciation.

It is probable, however, that Major Douglas would con-

cede this point. He would possibly argue that he has never maintained that depreciation charges are not equated by the payments for making replacements. His contention is rather that the producer is forced to recover from the consumer the cost of the buildings and plant in *addition to the sums necessary to cover depreciation*.

On page 15 of *The New and the Old Economics* he says :

From the ordinary point of view, the people who put up the money are legitimately entitled not only to a profit on this money, but also to get it back in full, since in their case the money may be assumed to represent past effort, so that the factories in question must make a charge on each article turned out which will provide the money to meet these claims. The only objection to this perfectly fair assumption is that, in the aggregate, the public have not got the money.

Mr. A. W. Joseph, in the pamphlet to which reference has already been made, says, on page 6 :

The manufacturer has, however, to recover the cost of the factory in the prices of the goods made. The saving has thus caused a deficiency of purchasing-power. Make no mistake, it is not merely depreciation which has to be recovered. I agree that depreciation costs may be re-issued as payments for keeping the factory in good order. The money value of the shares has sooner or later to be recovered.

Again, on page 8, speaking of capital accumulation he says :

When he builds his extension he distributes the reserve and makes good the public's inherent deficiency of money. But he has built an extension to his factory, and he will endeavour to collect the cost of the extension in the price of the goods made by the factory. This is irrespective of depreciation, which may be immediately distributed as payment for renewals.

It seems clear from these and numerous other similar statements that the deficiency which Major Douglas believes to arise as a result of the investment of savings in new works is due, in his view, to the inclusion of the cost of the new works in prices of consumption goods in addition to depreciation charges. But a moment's reflection should be

sufficient to show that such a belief is wholly without foundation. The requirement of an investor is that his capital shall be *maintained*, not that it shall be *repaid*.

It is true that investors sometimes wish to recover their capital, but they do so by discovering other would-be investors who purchase from them their claims on capital goods. Even when the investment takes the form of redeemable stock, the position is substantially the same. Instead of the obligation to provide a substitute falling on the investor, it rests, in the case of redeemable stock, with the raiser of the capital. A business which has stock due for redemption may either raise new capital to meet the repayment or it may provide the necessary sum out of profits or reserves. If the latter, it is, in effect, transferring the ownership of the assets previously represented by the stock now redeemed to its existing shareholders, who sacrifice their profit, or their reserve, and benefit by the increased earning capacity of their capital.

Similarly, if a producer has to repay a bank loan he must make the payment out of the profits which would otherwise have gone to his shareholders ; out of the reserve accumulated from past profits ; or by raising new capital from investors.

If it were true that consumers paid in prices both the original cost of capital goods and also the charges due to depreciation, it would follow that producers would be placed in a position to repay the capital invested by the public, and would in consequence obtain the capital assets for nothing. An investor, for example, might subscribe £1,000 toward the cost of new plant. If consumers were then called upon to pay, in prices, both for the cost of the plant and also its depreciation, the producer would be provided with the £1,000 with which to repay the investor, and he would have obtained his plant as a gift with no capital or interest liabilities attaching to it. It is true, of course, that certain very favourably placed producers are able to make exceedingly large profits, and can if they wish use these profits to wipe out some of their capital liabilities ; but to suggest that the normal practice in industry is for consumers to

defray the cost of capital assets whilst leaving the proprietors in complete possession of those assets is to propound the economics of bedlam.

We shall return, at a later stage, to this question of capital ownership in order to discuss the real nature of capital and its significance in a highly industrialised community. At the moment we are concerned with Major Douglas' claim that investment in new works creates a deficiency because consumers have no money with which to pay, in prices, the cost of those works. The answer to this contention is that they neither can nor are called upon to make such payments.

Possibly the fact that depreciation charges as a whole are sub-divided into cost of upkeep or current maintenance, and final replacement at the end of the estimated life of the asset, and that these two phases of depreciation are, as a matter of convenience, represented by separate items in the accounts of most firms, has confused Major Douglas, and caused him to believe that such firms were collecting, at one and the same time, the whole cost of depreciation on the one hand, and the original cost of the capital assets on the other hand. If, as appears probable, this is the explanation of the error into which he has fallen, a very elementary knowledge of the principles of accountancy might have saved him from a misunderstanding lamentable in its consequences.

4. *Difference of circuit velocity between cost liquidation and price creation which results in charges being carried over into prices from a previous cost accountancy cycle. Practically all plant charges are of this nature, and all payments for material brought in from a previous wage cycle are of the same nature.*

Although this item is placed fourth in the list of Major Douglas' five causes of deficiency, it is by far the most comprehensive, and the claim it makes would, if true, be sufficient of itself to support his whole case. For what we have here is nothing less than a re-statement of the A plus B theorem. "Difference of circuit velocity between cost liquidation and price creation" is simply another method

of expressing his belief in the existence of an inherent defect in the pricing system. When he goes on to explain that "practically all plant charges are of this nature, and all payments for material brought in from a previous wage cycle are of the same nature," he makes it clear that the whole of B payments come under this heading.

At each stage Major Douglas visualises A payments being made to individuals, and B payments being made to other organisations. "The rate of flow of purchasing-power to individuals is represented by A," but "the rate of flow of prices cannot be less than A plus B." The charges which are carried over into prices from a previous cost accountancy cycle are obviously the B payments of each stage, and they consist of all plant charges, and all *payments for material brought in from a previous wage cycle*. It will be seen therefore that this passage provides striking support to the view that at least so far as Major Douglas' original intention was concerned—and up to the time of the publication of *The New and the Old Economics*—his theorem was meant to convey that prices consist of the A plus B payments of all stages combined.

The fact that many Social Crediters would indignantly deny that they are committed to such a proposition does not really dispose of the matter. The question is simply whether it is logically deduced from the quoted passage. Major Douglas frequently employs phraseology the implications of which he does not appear to have sufficiently appreciated. In the present instance he is engrossed in his exposition and defence of the theorem and fails to realise that the language he uses implies a proposition which in itself is completely untenable. Social Crediters may not intend to claim specifically that prices consist of the A plus B payments of all stages combined, but if Major Douglas' statement, carried to its logical conclusion, means nothing less than this, they are bound to defend it as a proposition or discount the argument from which it can be deduced.

That it is a fair deduction cannot be reasonably denied, for what construction can be placed on the words "all payments for material brought in from a previous wage cycle

are of the same nature," other than that whenever a firm buys raw materials or semi-manufactures, and pays for them by a B payment to another organisation, the charge for those materials is carried, in its entirety, into prices of consumption goods? When the miller buys grain, the cheque which he sends to the farmer or the importer is "a payment for material brought in from a previous wage cycle." When the baker buys the same grain after it has been ground into flour by the miller, the payment he makes to the miller is "a payment for material brought in from a previous wage cycle."

In our detailed consideration of the theorem we saw that payments for materials acquired from a previous stage were built into the costs of semi-manufactures, which in their turn were carried into a further stage. Major Douglas makes no attempt here to differentiate between that portion of such payments which represents costs already accumulated, and that portion which represents the added costs of the wage cycle in question. Costs against the producer are, in his view, the same as costs against the consumer. According to his reasoning, the producer of each stage passes on his costs, and to whom should he pass them but to the consumer?

Yet we have seen quite clearly that the costs incurred in all stages of production, prior to the final stage, are costs handed over from one stage to another, and only the built-up costs of the final stage—which are really the sum of all A payments issued in respect of the goods in question—form the bill of costs to be presented to the consumer. If Major Douglas' reference to the difference of circuit velocity between cost liquidation and price creation is allowed its full meaning, it is impossible to avoid the conclusion that he believes that although producer costs are being liquidated by B payments, the amount of such costs is, with each transaction, added to prices.

The extraordinary lengths to which he is prepared to carry this proposition were effectively illustrated in a letter in the correspondence columns of *The New Statesman and Nation* of January 23rd, 1932. Major Douglas was replying to a review of his book *The Monopoly of Credit*, and the

reviewer was Mr. J. A. Hobson. We reproduce the letter in full.

As I should be happy if I could carry Mr. J. A. Hobson with me, perhaps I may invoke the courtesy of your columns to deal with the difficulty which he finds in my recent book *The Monopoly of Credit*. Perhaps by restating the matter in a form more familiar to Mr. Hobson, that desirable end may be attained.

The total deposits of the Joint Stock Banks are between £1,700,000,000 and £1,800,000,000. The annual clearings of the same banks are about £40,000,000,000. Assuming that the deposits were in constant use, these figures would suggest that the cyclic period of money in this country is about $2\frac{1}{2}$ weeks. I am fully conscious of the corrections to be applied, but I do not think they seriously invalidate the argument.

If Mr. Hobson will take 100 examples of modern production, ranging from, say, the Sydney Bridge and the Sukkur Dam at one end, to edible vegetables at the other, "weight" these according to the number of men employed and the time taken to complete each unit, he will be able to obtain a very rough but still illuminating figure of the average length of the modern production cycle, which certainly runs into years. I do not suppose that it is necessary to labour the point to him, under these circumstances, that in a money cycle of a few weeks and a production cycle of some years, the same money must appear several times in the cost of production. So that any divergence of opinion between Mr. Hobson and myself really reduces to this: Does he or does he not agree with the statement on page 30 of *The Monopoly of Credit*? "Where any payments in money appear twice or more in series production, then the ultimate price of the product is increased by that amount multiplied by the number of times of its appearance, without any equivalent increase of purchasing-power."

The "B" payments mentioned on a later page of the same chapter are, of course, the channel by which these repeated cycles of money which go to make up a final cost are completed.

C. H. DOUGLAS.

Now the significance of this letter lies in the fact that it relates the difference between the total deposits of the Joint Stock Banks, and their total clearings, to the "difference of circuit velocity between cost liquidation and price creation", with which Major Douglas is here concerned. It will be observed that he refers to the figures of bank deposits and annual bank clearings in order to arrive at the

conclusion that there is a money cycle of approximately $2\frac{1}{2}$ weeks, and he goes on to assume an average production cycle "which certainly runs into years."

In passing it may be noted as a curious fact that in suggesting a formula for arriving at an average production cycle he proposes to weight the items "according to the time taken to complete each unit." Since his purpose is to arrive at the average duration of all production operations, the process of weighting the units according to the time occupied in each case would obviously defeat his object. But since his intention is clear, the point is of little significance except to illustrate the habitual looseness of his thought and phraseology.

The inference which he proceeds to draw is "that in a money cycle of a few weeks and a production cycle of some years, the same money must appear several times in the cost of production." He then quotes from *The Monopoly of Credit* his statement that :

Where any payments in money appear twice or more in series production, then the ultimate price of the product is increased by that amount multiplied by the number of times of its appearance, without any equivalent increase in purchasing power.

He further amplifies this statement by saying :

The "B" payments mentioned on a later page of the same chapter are, of course, the channel by which these repeated cycles of money which go to make up a final cost are completed.

Now is there any possible escape here from the conclusion that Major Douglas is contending that all "B" payments go into prices, and that there is a relation between total prices and total bank clearings? Further, let it be noted that it is "the ultimate price of the product" which is increased, and, indeed, if it may not be assumed that he is concerned with prices which *consumers* have to meet, what point is there in his argument?

It may be taken for granted, therefore, that he is trying to prove, by reference to the volume of bank clearings, that a deficiency of consumer income arises from the "difference

of circuit velocity between cost liquidation and price creation." The excess of bank clearings over bank deposits is, in his view, both the evidence and the measure of the difference of circuit velocity. The difference of circuit velocity produces the deficiency.

We have stressed rather heavily the inference which Major Douglas draws from the volume of bank clearings, because we shall proceed to show that the argument which he employs equals, if it does not exceed in absurdity, any of the many extravagant statements which he has made. Let us take a few examples showing how the volume of bank clearings is built up, and see where, if at any point, the consumer comes into the picture.

Suppose factor "A" to be sitting in his office in Liverpool and receiving a telephone message from factor "B" offering 1,000 tons of coal. The occasion may be a temporary embarrassment which makes it necessary for factor "B" to realise on the coal in order to meet certain pressing liabilities. He accordingly offers the coal at 15 shillings per ton, "free on rail," and factor "A," believing he can find a market, accepts. The transaction is subsequently completed by the drawing of a cheque for £750 in favour of factor "B." Factor "A" now rings up a client and offers him the coal at 16 shillings per ton. The offer is accepted and he later receives a cheque from his client for £800. Now at the end of these two transactions the coal is in exactly the same spot that it was at the beginning, and not a ton of it has been consumed, but bank clearings have been increased by £1,550 through the mere fact that the coal has changed hands twice. How is it possible to contend that the matter has any significance, so far as consumers are concerned, except for the fact that one shilling per ton has been added to the ultimate price of the coal? Yet if bank clearings are allowed to have any significance, they have been increased by an original payment of, say, £750 by factor "B" to the colliery company; a payment of £750 by factor "A" to factor "B"; a further payment of £800 from his client to factor "A," and possibly a subsequent payment of £500 by the client to the railway company for

haulage. All these items could be found in "B" payments, and they total up to £2,800 or 56 shillings per ton at the point where the merchant receives the coal and requires to add his profit and dispose of it to, say, a gas company for consumption. Is it not perfectly clear that the price per ton to the gas company (including haulage) will be no more than 26 shillings, plus the merchant's profit? Yet Major Douglas' argument leads to the assumption that the cost to the merchant is 56 shillings per ton, and even this is ignoring the fact that the gas company would pay by cheque and so add a further sum to bank clearings.

But suppose we introduce a variation and say that factor "A," when he is approached by factor "B," replies that he believes he can find him a customer, but would require £50 as his share of the transaction when completed. He then secures the customer, introduces him to factor "B," and the latter sells the coal, receiving a cheque for £800 out of which he pays £50 to "A." The matter now stands: cheque for £750 drawn by "B" in favour of the colliery company; cheque for £800 drawn by merchant in favour of "B"; cheque for £50 drawn by "B" in favour of "A," and cheque for £500 drawn by merchant in favour of railway company, making a total of £2,100 or 42 shillings per ton. According to Major Douglas' reasoning, therefore, the variation in procedure has made a difference of 14 shillings per ton to the ultimate price of the product.

But the argument can be carried to even greater lengths of absurdity. We may imagine an art dealer discovering a valuable picture in a country mansion, and persuading the owner to part with it for £10,000. Bank clearances are promptly increased by that sum. Suppose the dealer then sets about creating a national interest in the work of art, and by certain judicious payments spends £500 in drawing attention to his find and persuading the public that it must be acquired by the nation. Finally, suppose that ten generous donors each contribute £5,000 and pay the money by cheque to the buying committee of the National Gallery, who in turn draw a cheque for £50,000 in favour of the dealer.

From first to last, bank clearances have been increased by £10,000, plus £500, plus £50,000, plus £50,000, a total of £110,500; yet where is the final consumer who is going to consume the picture at an ultimate price of £110,500? The effect on total consumer income is nil. Ten donors have between them £50,000 less to spend. The original owner of the picture has £10,000 more to spend; the people who have benefited by the advertising have £500, and the dealer has the remaining £39,500.

Examples could be multiplied indefinitely. "A" holding £1,000 worth of shares in Messrs. Lever Bros. concern may decide to sell to "B" who in turn sells to "C," and so on until at the end of twelve months the shares have changed hands ten times, a cheque for the value passing on each occasion. Bank clearings will in consequence be increased by an amount somewhere in the region of £10,000, but the consumers of Messrs. Lever Bros. soap will suffer no inconvenience thereby.

The incontrovertible fact is that bank clearances are swollen by a multitude of payments which never affect the prices of consumer goods, and even those items which arise directly out of industrial processes are a repetition of the same costs progressively increasing by the addition of the costs originated in each stage, and are not cumulative as Major Douglas appears to suppose. The total of bank clearings is merely a measure of how frequently money changes hands and it has not the slightest reference to the ultimate prices of consumer goods.

We have digressed in order to deal with this point because it illustrates the quality of Major Douglas' reasoning, and because it shows his mind working along the lines of his own interpretation and defence of the passage we are at the moment considering. If the reader is still disposed to doubt whether he really maintains that the "B" payments of all stages go into prices, surely the matter is placed beyond dispute by the following passage in which he comments on the five alleged causes of deficiency:

The whole of the above causes of the difference between purchasing-power and prices can be found in B payments, which

are money ultimately on its way to the bank, and none of them, with the exception of savings, are found in A payments, and if we subtract the A payments distributed in a given week minus savings from the total prices claimed in a given week, we shall get B payments as a measure of the net debt claims against the public for the week in question.

In the face of this statement can it be denied that Major Douglas is here maintaining what we have contended was originally implied in the A plus B theorem, namely, that the A plus B payments of all stages go into prices? Take any other interpretation of the theorem and try to fit it to the passage we have quoted, and it will be found to be totally inconsistent with any meaning which can logically be read into these words. If Major Douglas had realised that only the A plus B payments of the final stage form the price which the consumer has to meet, he could not have said:

If we subtract the A payments distributed in a given week minus savings from the total prices claimed in a given week, we shall get B payments as a measure of the net debt claims against the public for the week in question.

On the other hand, if prices consisted of the A payments of all stages, *plus the B payments of all stages*, then the difference between the A payments distributed as consumers' income, and the prices claimed from consumers, would be the total of B payments, and on that hypothesis the statement would be entirely correct.

Precisely because ultimate prices do *not* consist of the A plus B payments of all stages, but instead consist of the A plus B payments of the final stage only, and because the B payments in prices are the equivalent of A payments distributed in the prior stages, the claim which Major Douglas makes in the statement we have been considering is completely and ludicrously untrue. The prices claimed from consumers in a given week are therefore no more than the sum of all A payments made to consumers in respect of goods sold in that week, and although certain of these A payments have been spent in previous periods, other A payments in respect of replacements are available for spending in the week in question.

If it be urged in reply that Major Douglas' reference is not to prices of consumer goods alone, but to a total made up of all transactions entered into by both consumers and producers, then it must be pointed out that he specifically says :

Where any payments in money appear twice or more in series production, then the *ultimate price of the product* is increased by that amount multiplied by the number of times of its appearance, without any equivalent increase in purchasing-power. (Our italics.)

The case which Major Douglas presents is essentially a claim that *consumers of final products* are not supplied with an amount of purchasing-power sufficient to acquire all the available final products. If his argument is directed toward the support of this contention, the total prices to which he refers are undoubtedly prices of consumer goods. If, on the contrary, he is alleging a deficiency because the public is not supplied with purchasing-power sufficient to meet at one and the same time, all the multiplicity of payments made throughout the whole of industry, the argument becomes too nonsensical to be seriously considered.

We have felt it more necessary to point out with considerable emphasis what was undoubtedly Major Douglas' original meaning because we shall have to show later that he has recently authorised a statement which completely repudiates it. The public generally could not expect to be informed of the negotiation and argument, or whatever process finally brought him to the position of consenting to the abandonment of an essential part of his theorem. If the curious conception of B payments constantly adding to the claims made on consumers without contributing anything to their income is assumed to be a true reflection of the facts, the theorem stands as a perfectly logical deduction from it. If on the other hand prices of consumption goods are seen to be merely the sum of all A payments—the B payments of the final stage being the representatives of the A payments of earlier stages—the theorem ceases to have any logical justification.

Major Douglas has, until recently, strenuously defended the theorem although a section of his supporters would have preferred quietly to relegate it to the background. In this he displayed the greater realism, for he recognised the essential part which together with its underlying implication it played in his whole economic theory. Latterly, however, he has placed his imprimatur on a statement which completely emasculates the theorem and robs it of the only logical justification it ever possessed.

The assumption upon which it originally rested is, in our view, demonstrably unsound, but at least the A plus B theorem was logically deduced from that assumption. The attempt to rationalise the theorem by abandoning the concept which gave it its only semblance of reality, deserves to become the classical example of "throwing away the baby with the bath water." We shall describe this attempt and discuss it fully in the following chapter.

5. *Deflation, i.e. sale of securities by banks and recall of loans.*

It may be freely admitted that, when the banking system pursues a policy of deflation, the result will be a deficiency of consumer purchasing-power. If loans are recalled, and not re-issued to other borrowers, there will be a reduction in the volume of credit money, and the sums distributed by industry in wages, salaries, dividends and profits will be restricted. It would, however, be untrue to suggest that, to any appreciable extent, the issuing banks follow such a policy of their own accord. Banks are naturally disinclined to take any action designed to reduce the volume of their deposits, and if a deflationary policy is decided upon, the Central Bank has to compel the issuing banks to support that policy, by reducing the cash basis at their disposal.

If what Major Douglas has in mind is the sale of securities by the *Central Bank*, then it is true that this is the process by which it recalls cash and so enforces a policy of deflation. It is necessary to point out, however, that the sale of securities by an *issuing bank* does not alter the volume of bank deposits; it merely transfers deposits from the account of the purchaser to the account of the seller. So long as the

cash basis has not been reduced by the action of the Central Bank the sale of securities by an individual bank will be offset by an increase in advances to its customers, or alternatively by the purchase of the securities or by an equivalent increase in loans by other banks.

In so far as Major Douglas is referring here to the sale of securities by the Central Bank as a means of operating a policy of deflation, it is true that a deficiency of purchasing-power would result. The point has little significance, however, for such a deflationary policy is not by any means consistently followed, and it is, of course, equally true that the reverse policy of inflation, to which the Central Bank has recently been adhering, has the effect of increasing purchasing-power. In any case Major Douglas, in this instance, is merely stating the obvious, for it is universally recognised by economists, and by bankers themselves, that a policy of deflation has the effect of reducing the volume of purchasing-power.

CHAPTER VI

A NEW PRESENTATION OF THE THEOREM

THE FIG TREE, a new quarterly review under the editorship of Major C. H. Douglas, made its appearance in June, 1936. Its first number contained an article on the A plus B theorem by R. L. Northridge, unaccompanied by any editorial comment. The circumstances of the publication of this article in a review devoted to the expression of Major Douglas' views gives it the character of an authoritative statement of Social Credit belief.

Mr. Northridge naturally included in his article a version of the theorem, but his quotation differed in one respect from the original wording in *Credit Power and Democracy*, although it agreed with the wording which Major Douglas introduced in *The New and the Old Economics*. The version appearing in the latter work, and adopted by Mr. Northridge for the purposes of his article, had one significant omission. The words :

The product of any factory may be considered as something which the public ought to be able to buy, although in many cases it is an intermediate product of no use to individuals but only to a subsequent manufacture ;

were in each case deleted. Whatever may have been Major Douglas' reason for omitting from *The New and the Old Economics* this particular passage, it would have been decidedly out of place in Mr. Northridge's article because it would have conflicted with the interpretation which he sought to place on the theorem.

Following closely on his statement of the theorem Mr. Northridge uses these words :

It is important to notice that industrial costs as a whole are not liquidated by the sale of semi-manufactured goods between

firms; the costs are merely *transferred*. The costs are not liquidated until the final product is sold at retail to the ultimate consumer who actually uses the goods for his personal satisfaction and does not charge the cost of them to anyone else.

In order to induce continued participation in all these processes of production it is necessary that the final price of the goods (neglecting profit) be at least equal to the cost of the raw material plus the costs added by each firm through which the raw material passes. The final price is *not* the total of all the transfer charges within the industrial system.

All of which is indubitably true, but it leaves the theorem without a shred of justification.

Curiously enough, on the very next page of his article Mr. Northridge reproduced the following statement from *The Monopoly of Credit*, in which Major Douglas appears to state an entirely contrary view.

Where any payment in money appears twice or more in series production, then the ultimate price of the product is increased by that amount multiplied by the number of times of its appearance without any equivalent increase of purchasing-power.

If Mr. Northridge had been writing a destructive criticism of the A plus B theorem he might have used the above quotation as illustrating Major Douglas' view, and replied to it by the statement quoted from his article. But since he was writing in defence of the theorem, the inclusion of the two statements in close proximity has no obvious justification.

But to return to Mr. Northridge's exposition. He tells us that :

Most criticisms have been related to exemplary, simplified systems, of which the following is a fair example :

A firm X, producing raw material, sells a quantity to a firm Y for £200. Y's operating costs are £200, and this firm transfers the goods to firm Z for £400. Z's operating costs are also £200, so that this firm offers the goods to the public for £600.

If X's entire costs are wages and salaries, and if the operating costs of Y and Z are entirely wages and salaries, then the employees will have £600 and be able to buy all the goods offered for sale.

Before giving this simplified illustration further consideration it will be convenient to set it out numerically.

			X 1st month	Y 2nd month	Z 3rd month	
A costs	.	.	£200	£200	£200	} and sells for £600.
B costs	.	.	—	£200	£400	

We may suppose each stage of this process to require one month, and to function continuously in equilibrium, for the total of the A costs (£600) is equal to the price of the final commodity. Moreover, we can bring the system nearer reality by adding the simplest form, but only the simplest of overhead charges—maintenance of existing plant—without destroying the equilibrium. A fourth firm, M, can be imagined, collecting £10 each monthly from X, Y and Z, and supplying each with new machinery every month to that amount. (M, of course, must have no B costs.)

In any case (and disregarding M as an unnecessary complication in this context) the total of the A plus B costs of each firm is £200 plus £400 plus £600 equals £1,200, so that A is continuously less than A plus B without causing disaster. It has therefore been maintained that it is necessary for the total A payments to be equal to the A plus B costs of the *final firm only* for a state of equilibrium to be attained.

This equilibrium, however, is deceptive, being that of a spinning-top. Let us see what happens when the system is brought to a standstill.

During the first month with Y and Z operating alone, the total of the A costs distributed is £400, while the price and quantity of the final product, of course, remains at £600. During the second month, with Z operating alone, the total of A costs distributed is £200, while the price of the final product is again £600. The revealed deficiency of purchasing-power is £200 plus £400 equals £600—the amount by which A is less than A plus B when the system is in continuous operation.

Thus even in a primitive system, wherein all the costs added by the member firms are wages and salaries, and wherein B costs are merely transfers of semi-manufactured material, there is a carried-over deficiency from month to month of the difference between A plus B, and A, and this latent deficiency reveals itself in full when the system is wound up.

It is clear from the above that the writer of the article is making no attempt to demonstrate an actual and present deficiency, but that he *is* claiming the existence of a

potential or "latent" deficiency. It might be pointed out in reply that the "equilibrium of the spinning-top" is normal to the industrial system, and there is no reason to apprehend that it will cease to be so. To quote Major Douglas' own words: "The whole economic system is in ceaseless motion." What value can there be, therefore, in an argument which has to assume the suspension of this "ceaseless motion"?

To base a case for a drastic change in the economic system on a consideration of what might happen in an eventuality which is improbable in the last degree is to expose the fundamental weakness of the case. The equilibrium of the earth is also the equilibrium of a spinning-top, and one might say that if it slowed down and its rotation finally ceased, there would undoubtedly be a deficiency of sunlight on that part of the globe farthest from the sun. Yet the contingency is so remote that few people would be impressed by a plea that the world is suffering from a potential deficiency of sunlight, because such a deficiency would occur in the event of its motion ceasing.

If the whole industrial system came to a standstill, the population would not be troubling unduly about a deficiency of purchasing-power; it would be much more concerned about a serious shortage of food and necessities. If Major Douglas is disturbed about a deficiency which will not show itself until the industrial system comes to a standstill, he has surely made a great commotion about nothing. The industrial process is, as he is constantly reminding us, a dynamic process, and the community is justified in believing that it will continue to function dynamically. In the extremely remote contingency that Mr. Northridge visualises, we might be reduced to all manner of primitive conditions, but it is certain that we should be too much concerned with the problem of production to pay attention to a theoretical deficiency of purchasing-power.

It might with justice be said, therefore, that the possibility of a deficiency emerging under such conditions is not a matter which need cause anyone a moment's uneasiness. But that is not the whole of the matter. Not only is such

a contingency extremely remote and unlikely ; the deduction made from it is entirely unwarranted.

We are invited to observe that the B payments, although not really entering into the prices which consumers are called upon to pay, are of the nature of undisclosed debts against the community: that they constitute a latent deficiency which reveals itself in full when the system is brought to an end.

Mr. Northridge sees quite plainly (and he has the merit of stating this part of his belief very frankly and clearly) that prices are made up of the total of all A payments, and not the total of A plus B. Yet he is anxious to justify Major Douglas, and endeavours to do so by explaining that the B payments which the latter is pursuing are, after all, a source of danger. The deficiency is there although it is masked. Quietly and insidiously B payments are undermining the position, and although the consumer is not called upon to meet them they are steadily sinking him deeper and deeper into debt.

Yet if Mr. Northridge had paused to consider the matter a little more carefully he would have seen the fallacy underlying the argument. In the first place it does nothing to support the Social Credit contention that a substantial part of the product must remain unsold unless it is bought by a form of purchasing-power not included in A payments. The kernel of Major Douglas' case is that the flow of *prices* is almost always greater than the flow of A payments, and if he were right the consequential deficiency would be a very real embarrassment. But Mr. Northridge appears to have realised that prices are simply the sum of all A payments, and it follows therefore that the stream of A payments should equal the stream of prices of consumption goods.

The truth is that if B payments are *not* included in prices *in addition to A payments* it is impossible for them to cause a deficiency either immediate or potential. Consequently there must be a flaw in an argument which, whilst admitting that B payments are excluded from prices, still maintains that they cause an ultimate deficiency.

When Mr. Northridge adds up the A plus B costs of one cycle of production and finds that the total exceeds, by £600, the sum of the A costs distributed by the same cycle, and then goes on to locate the deficiency by winding up the concern, he is overlooking a vitally important fact. The difference of £600 between A payments on the one hand and total A plus B payments on the other hand, is a difference which occurs *de novo* in each cycle of production ; but the supposed deficiency to which Mr. Northridge points could be found once only, when the system is brought to a standstill.

If we assume that the combination of firms, X, Y and Z, will continue to operate for long enough to put through 100 cycles of production, each of these cycles will produce its difference of £600 if A plus B costs are compared with A costs. These differences do not result from any carry-over from a previous cycle. The first cycle showed such a difference, and a similar result must occur in every subsequent cycle. If these differences really constituted deficiencies it would follow inevitably that the deficiency would be cumulative, and after 100 cycles of production, there would be a total deficiency resulting from the operations of these three firms of £60,000. It is impossible to escape from this conclusion because the alternative would be to assume that as each cycle of production produced its own deficiency, the deficiency of the previous cycle would mysteriously melt away, leaving not even the shadow of a shade behind.

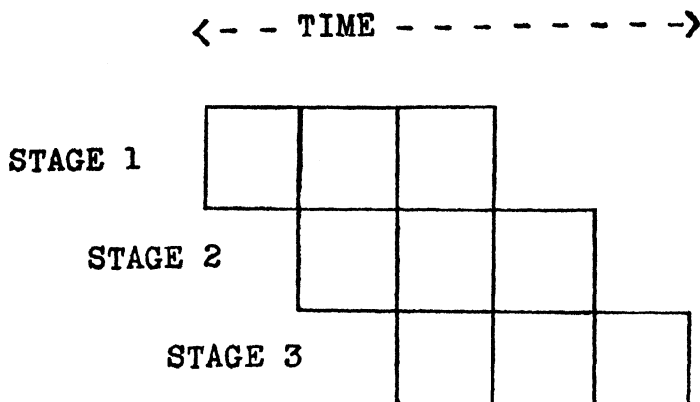
But against this total of £60,000, growing to still larger proportions, the longer the firms continue to operate, what has Mr. Northridge to show in the shape of a tangible deficiency on the termination of their industrial activities ? *No more than £600 !* Only the amount of the difference arising in one cycle of production can be located by the method he adopts, and the question arises, to which of the 100 cycles of production does this finally disclosed deficiency refer, and what mysterious process has dissolved into nothingness the similar deficiencies to which each of the other 99 production cycles must have given birth ?

Let us not lose sight of the fact that the B payments to which he refers are specifically stated to be payments for raw materials or semi-manufactures and these materials are finally consumed in their own production cycle, fresh materials with new B costs attached being brought into each succeeding cycle. There can be no possibility therefore that the initial deficiency of £600 could be carried forward from cycle to cycle, to emerge finally at the same figure of £600. If any deficiency arises in this case it is a cumulative deficiency, and Mr. Northridge's attempted demonstration is shown to be singularly inadequate and futile.

The truth of the matter lies in the conception of B costs which he stated so clearly at the outset, but abandoned later in his anxiety to defend the theorem. He saw that these B costs were no more than the record of costs *transferred*, and it follows, therefore, that such costs become liabilities in their new situation only by virtue of the fact that the new liability is a complete cancellation of the old. Any attempt in whatever form to demonstrate a deficiency by totalling A and B costs in excess of those of the final stage must be valueless, because it is clearly including the same charges twice or several times over.

But this being so, what is the significance of the apparent deficiency which is discovered by the winding up of an industrial system? The reader may justifiably ask: If it be granted that B payments do not cause a cumulative deficiency, is there not a final deficiency equal to the advance B payments of one stage only, and if so to what cause should such a deficiency be attributed?

Reference has already been made to the fact that the organisation of production in stages involves that purchasing power is distributed in advance of production. In consequence any individual production process commences by projecting purchasing-power into the industrial system in advance, and ends by collecting purchasing-power from consumers as a delayed operation. An individual production unit might be illustrated by a geometrical figure such as the following:



Such a figure would correctly reflect the fact that production by stages involves that the time spacing of each succeeding stage is retarded, so as to permit the passing on of the product in its progress from raw material to finished article. Although it is of course true that each unit, examined separately, shows an excess distribution of purchasing-power in the earlier periods and a corresponding shortage of purchasing-power in the later periods, this fact ceases to have any real importance when it is remembered that the productive system as a whole is made up of innumerable such units which fit into each other in a kind of geometrical pattern. So long as the industrial system continues to function as a whole, the commencing periods of one production cycle—in which purchasing-power is distributed in advance—will compensate for the concluding periods of another production cycle.

In other words, instead of the distribution of purchasing-power, and its ultimate withdrawal in the prices of the goods produced, forming a diagonal line through time, the interlocking of all individual production processes into one coherent whole, brings the distribution of purchasing-power, and its return in prices, into a vertical alignment.

The means by which this system of production is made possible is the accumulation of capital, and we have already intimated that we shall deal with this question more fully in a later chapter. It will be sufficient to say, at this point,

that the fact that certain members of the community acquire capital, which exists physically as buildings, plant, equipment, raw material, semi-manufactures, or stocks of final products, makes it possible to bridge the interval between the commencing stages of production and eventual consumption. Without accumulated capital the community would be living a hand-to-mouth existence. By the possession of capital it has what is in effect a store of consumption goods, or of the materials which in course of time will become converted into consumption goods.

When Mr. Northridge terminates the operations of his three firms and finds in consequence that consumers are deficient of purchasing-power necessary to buy the last batch of goods (by an amount which is equal to that which, in the first cycle, was distributed in advance of the marketing of goods), he is merely observing one aspect of the ownership of capital.

Apart from any buildings and plant required for his business, X would from the outset require £200 of working capital to pay the workmen who produced the raw material which he sold as his product. This working capital would alternate between cash available for wage payments and stocks of his product awaiting sale. As he sold the material to Y he would replenish his cash and be in funds for further wage payments. Similarly Y would require to have £400 of working capital in order to acquire £200 worth of raw material and expend a further £200 upon its conversion into semi-manufactures.

Now when Mr. Northridge dispenses with the services of X he overlooks the fact that X retires with £200 in his pocket, the sum he has received in payment for the last batch of material supplied to Y, and when Y is similarly retired he leaves with £400 to his credit in payment for the semi-manufactures which he has just handed over. If X and Y had continued in business this £600 would have been distributed in wage payments to secure the production of further supplies of raw materials and semi-manufactures, and the only reason why Mr. Northridge is able to show a deficiency of purchasing-power is because he has restrained

X and Y from paying out the £600 which they have received from the sale of their products.

But what is going to happen to this £600, which is really the working capital of the two firms? Is it to remain as capital, or will it be broken down and used as purchasing-power? If the former it will be employed in some other production process and the effect will be the same as though X and Y continued to produce in combination with Z. If the latter, then the £600 can buy the goods which are coming on to the market although the distribution of purchasing-power by X and Y has ceased.

All that Mr. Northridge's deficiency amounts to, therefore, is that wages are £600 less because he has restrained X and Y from distributing £600, which in consequence remains in their possession. Logically he is in this position: if he is closing down this particular section of the production system, and if the £600 is not required to make wage payments elsewhere, the capital will revert to its original character of consuming-power and will help to purchase the last batches of goods.

Assuming that this £600 was originally saved, it was purchasing-power which became converted into capital, but it had to be represented in the industrial system by goods of some description. It is necessary for the working of the present production system that vast accumulations of buildings, plant, equipment and material in various stages of production, which will ultimately be consumed in the production of final products, should be held for consumption at some future period.

The owners of capital are merely those members of the community who agree to facilitate this arrangement by postponing for an indefinite period the rights of personal consumption to which they have become entitled. So long as production continues, and accumulated capital is maintained for the purpose, these rights to consumption will be held in suspense; but if it be assumed that production stops and capital is no longer required in that form, it becomes once more effective purchasing-power, and is in fact a claim on the residue of the product.

Social Crediters would perhaps reply that the working capital of a large number of firms is represented by bank overdrafts; that the current payments for wages and materials are not met out of the savings of investors, but out of borrowings from the bank. But although this is undoubtedly so in very many cases, it does not materially affect the issue. X and Y may owe the £600 to the bank and may use it to wipe out their debt, but in this case the bank will want, if possible, to re-issue the £600 as a new loan, and if it does so the £600 will be distributed anew in wage payments and the position will be as though X and Y had continued in business.

On the other hand, if the bank is being forced by the Central Bank to follow a deflationary policy, and in consequence it does not re-issue the £600, there will of course be a deficiency. Such a deficiency would, however, be directly attributable to the deflationary policy, and the fact that deflation involves deficiency is no proof of Major Douglas' theories.

The fact remains, therefore, that Mr. Northridge has merely demonstrated that if an industrial organisation is brought to a standstill, there will remain—after all other claims have been met—a share of the product sufficient to meet the claims of the individuals or the organisation from whom the working capital was obtained. Since it is this working capital which has enabled the product to be held in stock during its progress from raw material through the various stages of manufacture to the consumer's market it is both equitable and necessary that the interests of the potential consumers who have capitalised their consumption rights for this purpose should be safeguarded. If in fact there was no provision for finally meeting such claims, Mr. Northridge's experiment in bringing his hypothetical system to a standstill would disclose an inherent insolvency.

It is clear then that the circumstance to which he has directed attention has no relation whatever to B payments, and does not provide a shred of justification for the A plus B theorem. If the reader will carry his mind back to the wording of the theorem he will recollect that Major Douglas'

very definite statement was "since all payments go into prices the rate of flow of prices cannot be less than A plus B." This statement has again and again been shown to be completely groundless. Now, Mr. Northridge, presumably with the approval of Major Douglas, tries to reconstruct a discredited theorem by an argument which means that although B payments (other than A payments disguised as B payments) do not go into prices by any discoverable route, they do, by some means, arrive at much the same destination, and are responsible for a "latent" deficiency.

As an attempt to put the theorem on a firmer basis the argument is an unqualified failure. Mr. Northridge helps to destroy the interpretation which was unquestionably Major Douglas' original meaning, but he succeeds in putting nothing tangible in its place. The straightforward attempt to demonstrate by the theorem that purchasing-power is "A," but prices are "A plus B," and that "B" (the difference between purchasing-power and prices) is the representative of raw materials, bank charges and other external costs, is as dead as the dodo, and cannot be resuscitated by any method such as Mr. Northridge employs.

Probably many Social Crediters would realise and admit this fact if they were not fortified in their beliefs by an acceptance of Major Douglas' views on the creation of debt and on the nature of banking operations. Our next task will be to consider these aspects of the Social Credit case.

CHAPTER VII

THE RISE OF DEBT

MAJOR DOUGLAS has the irritating habit—when certain of his definite assertions are submitted to analysis and criticism—of taking refuge in a general statement which, although partially or even wholly true, does not provide any real proof of the original assertion. His argument appears to be that such criticism must be invalid, and it is therefore unnecessary to reply to it in detail, because the truth of his proposition is vouched for by certain obvious facts. It is not considered necessary to show that these facts are inconsistent with any other hypothesis: he is content to be able to claim that they are not inconsistent with his particular hypothesis. In this way the purely negative absence of disproof in a specific set of circumstances is put forward as though it were a positive confirmation of his proposition.

An instance of this rather evasive method is his manner of brushing aside destructive criticism of the A plus B theorem and directing attention to the "rise of debt." In a speech made at Oslo on February 14th, 1935, he developed the rise of debt argument in the following way.

It is not too much to say that the whole economic and financial system in its present form stands or falls by the contention that the present price system is self-liquidating, that is to say, that no matter what price is charged for an article there is always sufficient money distributed through the production of that or other articles to buy the article and therefore there is nothing inherent in the system, so far as the price system is concerned, to prevent the process going on indefinitely.

Now I am not going into the analytical proofs of the fact that this belief is not true, although rigid proofs to this effect exist, but I will ask you to consider the quite indisputable inductive proofs.

It may be observed here that the A plus B theorem is presumably the chief of the so-called rigid analytical proofs to which Major Douglas referred, but although its truth has been, and still is, disputed by every economist of repute who has examined it, there was—by this process of reasoning—no need for him to defend it on this occasion because he was not asking his hearers to consider it. He merely informed them, in passing, of the existence of such “rigid proofs” and then proceeded to ask their consideration of certain “quite indisputable inductive proofs.” Having thus made a detour around his critics he continued with his argument as follows :

Now there is one proof, I think—one inductive proof—which puts this question quite beyond any discussion whatever, and that is the question of the rise of debt. It must, I think, be quite obvious to anybody that, if the world as a whole is getting further and further into debt, it is not, as the ordinary business man would say, paying its way, and if it is not paying its way it is quite obvious that the price system demands of it more purchasing-power than is available. The public is paying all that it can, and buying what it can. The failure to pay more is therefore forcing the destruction of some of it and at the same time it is piling up debt, which means that, to be self-liquidating, the purchasing public ought to pay a great deal more than it is in fact paying.

After referring to “the growth of world debt,” and quoting a calculation of Professor Rautenstrauch, Professor of industrial engineering at Columbia University, that it was increasing as the fourth power of time, Major Douglas went on to say :

That, to my mind, and to anybody who will appreciate what its real meaning is, is an indisputable proof that the present price system is not merely not self-liquidating but is *decreasingly* self-liquidating.

The suggestion contained in these passages is perfectly plain. According to Major Douglas the consuming public is suffering from a continuous deficiency of purchasing-power. In consequence of a defective price system the amount of wages, salaries, dividends and profits with which

the community is supplied is normally insufficient to acquire by purchase the whole of the goods it produces, and it is driven to meet the claims made upon it by increasingly resorting to borrowing. Just as an individual whose income is less than his expenditure gets into debt, so Major Douglas visualises the whole community driven to pile up mountainous debts as the only method by which it can at present acquire the product of the industrial system.

This conception of the phenomenal and alarming growth of debt is the natural corollary to his other conception of an inherently defective price system. The deficiency resulting from the inadequate supply of consumer purchasing-power is the dilemma in which the consuming public finds itself ; the burden of increasing debt is the price which the public is forced to pay for an escape from this dilemma. But it is an escape which, to Major Douglas, is not a solution but only a postponement of the problem, for in *The Monopoly of Credit*, page 40, referring evidently to this debt creation, he says : " But as this fresh money is claimed by the banking system and has to be repaid, the situation is cumulatively worsened."

The picture which he draws is one in which the public *as a whole* is not paying its way. It is borrowing itself out of one debt by incurring a greater debt, and thus piling up a colossal indebtedness which is putting the financial institutions into complete control and ultimate ownership of the whole industrial machinery. If it is a true picture, he has presented a tremendous inditement of the present economic system. If, on the other hand, his conception of the whole community sinking deeper and deeper into debt is a false conception, this support for his theory of an inherent deficiency of purchasing-power falls away and leaves it discredited. Viewed from this standpoint it becomes clear that a correct understanding of the nature and significance of such debts is of vital importance to an accurate judgment of Social Credit doctrine.

The question which at once arises from an examination of the passages quoted from the Oslo speech is, to whom are the debts owed ? Major Douglas is not concerned here

with debts which are of themselves self-liquidating. Quite definitely his statement is that the world *as a whole* is getting further and further into debt. The claim means, therefore, that if the assets and liabilities of the whole community were thrown into one total, there would be a huge excess on the liabilities side.

Let us be quite clear on this point because it is critical to his whole argument. It is not sufficient to prove that there is a steadily increasing volume of debt owed by one section of the community to another section of the community, for such debt provides no evidence whatever that the present price system is not self-liquidating. If A borrows £1 from B, A's purchasing-power is increased exactly in proportion as B's is decreased, and when the loan is repaid, the process is reversed. Such transactions involve a transference of purchasing-power but they provide no proof that the price system is unbalanced. If A, with £10,000 of capital, builds a factory, the volume of debt is not thereby increased ; but if he lends the money to B, who builds a factory with it, undoubtedly total debt claims are increased in consequence. Yet B's debt is balanced by A's credit and debit and credit cancel out within the community. It must be agreed therefore that so long as the debt is internal to the community certain members may be in debt to other members, but the community *as a whole* is not in debt.

When Major Douglas denies that the present price system is self-liquidating and, in support of his contention, declares that " the world as a whole is getting further and further into debt," he clearly implies that the whole community is burdened with an increasing number of debt liabilities which are not offset by equivalent creditor claims.

If a nation has a large internal debt, the creditor claims of one section of its nationals will balance the debtor liabilities of the whole or a section of its nationals. But the nation as an entity will not be in debt unless it has incurred obligations to individuals or communities external to itself. Major Douglas is viewing the world as an entity and his claim is that the world *as a whole* is getting further and further into debt. The essence of his claim is that such debt is

evidence of an unbalancing of the system and the logic of his argument is that the world as a whole owes more than it is owed. But in that case, to whom does the world as a whole owe its debt ?

Major Douglas would reply that it is in debt to its financial institutions as such and he would imply that those institutions, by the issue and recall of money, are leaving outstanding liabilities against the community without leaving equivalent outstanding credits at the disposal of the community. This is really the crux of his argument. Debt as he sees it is not a two-sided affair of debit and credit balancing each other. It is an unbalancing of the world's budget and is therefore a debit without a credit.

Now although at first sight this appears to be an entirely nonsensical proposition for which no sort of justification could be offered, Social Crediters do in fact offer an explanation which is at least superficially arguable. The common-sense view is that where there is a debtor there must be a creditor, and in consequence the disadvantage of the debt will somewhere be counterbalanced by the advantage of the credit. To suspect the banks of accumulating and *immobilising* secret reserves equal to the astronomical figure which Major Douglas visualises is beyond the credulity even of the Social Credit Movement. The creditor cannot be within the system, because in that case the latter would remain self-liquidating. The creditor cannot be outside the system, because Major Douglas is speaking of the world as a unit, and we have not yet reached the stage when financial obligations can be entered into with another planet. How then is it possible for the world *as a whole* to be in debt, and for the debt to unbalance the system ?

The explanation in terms of Social Credit philosophy is that the banking system creates money and issues it as debt and later recalls and destroys the money, leaving a debt against the community still in existence.

There are numerous references in the writings of Major Douglas which clearly indicate that this strange misunderstanding of banking technique runs like a *motif* throughout his reasoning. He sees the banking system creating and

destroying credit and he asks himself, why should the liabilities imposed on consumers by the employment of credit in industry persist after the credit itself has been cancelled out of existence ?

One of the most fruitful causes of error is the habit of forming conclusions without properly understanding the circumstances and processes from which they are deduced. Major Douglas repeatedly sins in this way. He displays a superb contempt for the expert economist who has acquired his knowledge by a careful study of all the relevant factors, and with supreme egotism proceeds to formulate a new economic doctrine without examining or understanding the rudiments of the science. If, before he commenced to dogmatise on questions of banking and credit issue, he had felt it necessary to equip himself with an understanding knowledge of the processes involved, he would not have committed some of his most egregious errors.

The fact that an industrialist repays his debt to the bank before the goods which the loan has enabled him to produce have come on to the market, is no proof whatever of an unbalancing of the system. His own capital may have been invested in an earlier batch of goods which have in the meantime been sold, and he may have used the proceeds of this sale to pay off his debt to the bank. In such a case the consumer's liability to recoup him for his outlay on the last batch of goods still remains, and rightly so. Alternatively he may have borrowed from the bank as a temporary expedient until he is able to raise the capital from various investors ; or he may have sold the goods to a factor who uses his own capital to acquire them. In none of these cases is there the slightest evidence of an unbalancing of the system. Nowhere is a debt created which is not balanced by a corresponding credit. The production of goods creates a cost against the ultimate consumer and this cost is liquidated only when the goods are purchased for consumption. In the meantime the claim on the consumer may be held by the bank ; by the producer ; by a private investor ; by merchant, factor, or shopkeeper ; in short by anyone who, by investing his capital in the

goods, acquires the right to collect their price from the consumer.

It is surely obvious that the circumstance that the original producer has disposed of his claim by passing it on to some other individual, and is in consequence able to pay off his debt to the bank, does not cancel the liability of the final consumer to meet the costs incurred. When Major Douglas infers, therefore, that the repayment and cancellation of a bank credit ought to cancel the liability of the final consumer, he is suggesting something every bit as foolish as though he were saying that the purchase of goods by a wholesaler entitles the consumer to get them for nothing. When one remembers that he is proposing to issue free consumers' credits to meet a deficiency which he supposes to arise from this cause, it becomes obvious that he is in fact proposing to release consumers from their liabilities on the insufficient grounds that the bank has been repaid, not by the consumer but by the distributor of the goods.

Of course, if the amount of the bank loan were included in prices of consumption goods, *in addition to the payments for labour and materials on which it was expended*, there would obviously be a deficiency, because in that case the consumer would be paying the same costs twice. But a moment's reflection is sufficient to show that this does not happen. A producer charges in the prices of his goods his production costs plus interest on his capital and whatever profit he is able to make, but he does not expect to recover his *capital* from consumers, whether that capital is acquired from investors or borrowed temporarily from the bank. If he did in fact charge into prices all his production costs, plus the sum which he had borrowed to finance his production, he would be receiving from the sale of his goods an amount sufficient to repay his loan and also to finance a new cycle of production without a further loan from the bank. In other words, he would have obtained the capital to finance his future production for nothing. Obviously, he is not able to do this, although doubtless he would welcome the opportunity. The position so far as he is concerned is governed by the fact that he is producing in competition

with other producers, who commence by operating with their own capital and who only require to recover their costs, plus interest on their capital and their profit.

But since Social Credit means a diversity of things, and each votary interprets it according to his point of view, it is certain that some Social Crediters would object that when Major Douglas speaks of "the growth of debt," he is not referring to the cancellation of bank loans before the costs which have emerged from them are presented to the consumer. They might go on to suggest that the increase in Public Debt was his main concern; that although these debts arose through Government borrowings, the borrowed money was created costlessly by the banks, and that this money which cost nothing to create was owed by the Government either directly to the banks or to private investors who had borrowed in order to lend. They would demand, rhetorically, to be informed why the community should pay interest in perpetuity on money created out of its own credit, and why the banking system should be permitted to constitute itself the owner of the nation's credit and to transmute it into a burden of public debt.

Major Douglas himself would not agree that this is the whole of his inditement. He would wish to widen the definition of debt; but he does undoubtedly maintain that public debt is a substantial part of the indebtedness which in his view proves the system to be unbalanced, and he is most certainly identified with this sort of criticism of the banking system.

It is, of course, true that large increases in public debt have to be financed by new credit and such credit is created and issued by the banking system. During the Great War the Government borrowed large sums, either directly from the banks or from private investors, and the interest which it paid on this borrowed money went either to the banks or to the private holders of War Loan Stock. In the latter case the investor, if he had obtained an overdraft in order to take up the War Loan, had to pay interest to his bank on the overdraft. The banks were therefore in the position of creating large sums of new money and receiving

interest thereon either from the Government or from their clients.

Now this is the picture as the Social Crediter views it. He stops short at the point where he sees the banks receiving interest payments on the money they have loaned to the Government or to clients, and he points out with indignation that this money cost the banks nothing to acquire. If that were really the whole of the story there would be good grounds for an inditement of the banks. But there is another side which Social Crediters completely overlook.

When a bank creates new credit and puts it into circulation by purchasing securities or by lending to clients, it does so with the knowledge that the money will come back to the banking system as new deposits. These deposits are really the cost to the banks of the new credit and they represent liabilities against the banking system which balance their assets in the form of loans or investments. When during the War the banking system expanded credit in order to finance the vast borrowings of the Government, bank deposits increased in exactly the same proportion. Whether the banks lent to their customers to enable them to purchase War Loan, or whether they lent to the Government direct, made no difference. The new money put into circulation increased deposits, and the banks were simply in the position of having larger figures on both sides of their balance sheets, without having gained any new asset which was not offset by an equivalent liability. On a proportion of the new deposits so created—to be precise, on the sums left in deposit account—they were liable to pay interest to the depositors, and they could not have met these liabilities if they had not, on the other hand, been earning interest on their assets.

The assumption which Social Crediters really make is that when banks create new credit it becomes their own property. The fact is that banks can no more create money to increase their private capital than can the ordinary citizen. The invariable method by which new money is brought into existence is by the creation of loan and deposit in conjunction ; an equal debit and credit to the banking

system. On the reverse side, when credit money is cancelled a loan and its equivalent deposit go out of existence at the same time.

The details of this process will be dealt with more fully in the following chapter, but the particular question with which we are concerned here is whether the huge Government liabilities which have been financed originally by bank credit place the community *as a whole* in debt. The answer is that every fraction of Government stock, or any other form of investment which the banks hold, apart from their own private capital, is in effect owed by them to their depositors. The position is, therefore, that all Government debt is owed, directly or indirectly, to individuals, and liabilities and assets cancel each other out within the community. Government debts, therefore, provide no support whatever for Major Douglas' theory that the world as a whole is sinking deeper and deeper into debt, and that the system is in consequence unbalanced.

But when all this is pointed out to Social Crediters it is certain that some of them will merely register impatience, and will maintain with some heat that it completely misses the point of Major Douglas' contention. This contention is, in their view, simply that bank loans are being cancelled *before* the costs arising from them are liquidated. They assume this to mean that loans are being cancelled faster than costs are being met and they arrive at the conclusion that the volume of available money is always less than would be required to meet all costs outstanding against consumers. They might admit quite freely that when a bank loan is cancelled deposits to the same amount go out of existence at the same time, and they might also be prepared to admit that under normal circumstances the bank will re-issue the amount of the loan to another borrower.

Yet all this would leave them unconvinced, because they would go on to contend that a bank loan creates industrial costs; that these costs must remain unliquidated when the loan is repaid, and that when a new loan is issued to a new borrower it will in its turn create another series of industrial costs.

The process which they visualise is the constant issue and retirement of bank money and the creation of fresh industrial costs on each occasion. They argue that once the money is retired that amount of costs cannot be met because a new loan which may be issued in its stead will create its own costs—that if the money circulated by the new loan is used to liquidate the first costs, the second costs must remain unliquidated.

This particular Social Credit argument—which undoubtedly correctly interprets Major Douglas' views—is really a claim that every bank loan should remain outstanding until the goods which it brings into existence are actually sold to the final consumer, and that new money should be issued for the production of each new batch of goods. According to Major Douglas, the present arrangement involves that if a loan of, say, £5,000 is issued and retired and a similar amount is re-issued several times before the goods brought into existence by the first loan are sold to consumers, then the industrial costs created will be £5,000 multiplied by the number of times the loan has been issued, but only £5,000 will be in existence to meet all these costs.

On page 87 of his book *Social Credit* he says :

The repayment of bank loans, unaccompanied by the destruction of the article produced as a result of its creation, immobilises an equivalent body of price values, so that neither can the articles to which the prices refer be sold, nor in the case of machinery, etc., is it possible to make any charges in respect of consumption goods which are consequent on the use of such machinery, without still further increasing the disparity between the goods available still, and the money available to buy them.

Now the fallacy of this argument lies in the assumption that when a bank loan is repaid it leaves costs outstanding with no money available in the industrial system to meet them. Such an assumption is, however, completely unjustified. If a producer uses a bank loan of £5,000 to produce a stock of semi-manufactures and by the sale of these semi-manufactures is able to repay the loan, the fact that he has effected the sale of his goods is proof that there

is in the industrial system *sufficient money employed as capital* to take over the semi-manufactures. The producer who has acquired them has invested £5,000 of capital in these goods, but the £5,000 distributed to consumers *has not been recovered from them for the purpose of the repayment*. In short, producer number two has used £5,000 of working capital which he has available in order to pay for the semi-manufactures and dismiss producer number one, and the bank, from the transaction.

Suppose that he now in turn borrows £5,000 from his bank and distributes it in wages in order to convert the semi-manufactures into final products. Leaving on one side, for simplicity, the question of profit, the position now is that consumers have received £5,000 from producer number one and £5,000 from producer number two, and are therefore able to purchase the final products for £10,000. Producer number two, when he collects the £10,000, can repay his own bank loan and still have his original capital of £5,000 with which to purchase a further supply of semi-manufactures.

If it be objected that producer number one may not be able to sell his products, that, in fact, the contention is that it is impossible for him to do so, the answer is that the argument remains undisturbed by this demurrer. In every case where a bank loan is repaid before the costs which it has originated are presented to consumers, the money with which the repayment is made must be drawn from capital. It may be that the first producer has his capital invested in an earlier batch of goods and by the sale of these goods he is able to repay the bank, or it may be that he borrows the money from investors who have capital to lend, and transfers his indebtedness from the bank to them. From whatever source he obtains the money to repay his bank loan, the indisputable fact is that he can only collect it from consumers *in prices* if he sells his product to consumers and by so doing cancels the costs. But the assumption is that he is repaying his loan before these costs are presented to consumers, and in those circumstances the money used for the repayment must be money functioning

as capital, and drawn, not from consumers as such, but from the owners of capital.

This capital existing in the industrial system is in a state of continual flux. The merchant with working capital invested in goods ready for the market will, through his sales department, be disposing of his stocks and replacing his cash. His working capital will in consequence become available to purchase further stocks of goods, and if the money after its passage through the various production stages is finally used to repay a bank loan, no dislocation will be caused provided a similar loan is re-issued, and the production of replacement goods is thereby maintained.

It is due to the existence in the industrial system of a sufficient amount of money functioning as capital that it is possible to repay bank loans before the money has been collected from consumers in respect of the particular costs which the loans have created. Major Douglas overlooks the existence of this capital and the part which it plays in supporting industrial costs up to the point when they are defrayed by consumers. He assumes that when the loans are repaid the money must have been collected from consumers for the purpose, and he fails to realise that whenever repayment takes place before the goods are finally consumed the cost is borne by existing capital.

The part which capital plays in supporting industrial costs will be dealt with more fully in Chapter IX. At the moment we are concerned to show that the so-called "premature" retirement of bank money can, and does, take place because the costs are taken over by existing capital. At any given moment the total unliquidated costs in the industrial system have been borne and are supported by the total industrial capital, plus the total sum of outstanding bank loans, and so long as new advances are made as fast as old loans are repaid, the repayments are made possible by the release of industrial capital through the sale of goods at the other end of the chain.

We have seen that these repayments are in themselves a self-liquidating process, and do not place the community as a whole in debt, and it is equally true that so long as the

total volume of outstanding loans is not reduced, industrial capital can be maintained, and repayments can be made from this source. If, however, the banking system is recalling loans faster than they are being re-issued, capital will be depleted, and producers will be forced to realise on their goods, possibly at a loss to themselves. The question here is simply whether the volume of money available in the industrial system for use as capital is being contracted. It is concerned with the relation between the total existing industrial capital, plus the total outstanding bank loans, and standing against this sum, the volume of costs awaiting presentation to consumers.

It can, of course, readily be conceded that if in consequence of a banking policy of deflation or from any other cause the volume of money in circulation is reduced there will be a deficiency of purchasing-power. A contraction of credit is recognised to have this effect, just as an expansion of credit is known to produce an increase of purchasing-power. But it does not follow that the repayment of loans necessarily means that the volume of money in circulation is being reduced. Banks are continually cancelling loans and as constantly re-issuing them, and only if the total amount of loans repaid is greater than the advances made is there a reduction in total purchasing-power. The point, however, is not one which permits of argument. It is simply a question of fact, and the fact is that, except in periods of credit contraction, the volume of loans is always maintained, or more than maintained.

On no ground, therefore, can it be shown that debts of any kind involve an unbalancing of the system. Whether they be public or private ; whether they are direct contracts between borrower and lender, or indirect contracts guaranteed by the banking system, they represent engagements entered into between individuals or groups of individuals, and the obligation to make payment on the one hand is balanced by a title to receive payment on the other hand.

Major Douglas' claim that "the rise of debt" proves that the system is not self-liquidating, depends for its support on the erroneous assumption which he makes that

the banking system, in cancelling credit money, removes an asset without removing its related liability. It requires of his adherents that they should subscribe to the view that bank credit is issued as the property of the banking system ; that the obligation of repayment is an unnecessary condition imposed by the banks in order to support their claim to ownership, and that the present method of retirement of credit money involves a reduction in the total means of payment available to the community without a corresponding reduction in the community's total obligations.

The real position is that the creation of new money is in itself a credit and a debit to the community and its withdrawal is the cancellation of an equal debit and credit. The obligation of repayment is, in fact, the real cost of a bank loan and the cost is liquidated by the repayment. The employment of the money in industry creates industrial costs which in their turn are ultimately liquidated by consumers when they reimburse the producers or the entrepreneurs who have used their capital in order to acquire the right to collect them.

The existence of debt is in every case a recognition of the fact that the debtor has incurred an obligation to make the covenanted payment to a creditor, and Major Douglas' claim that the existence of these debts proves the system to be unbalanced is utterly devoid of justification and could arise only from a complete misunderstanding of banking technique. In the following chapter we deal in greater detail with banking procedure and its relation to Social Credit theory, and demonstrate beyond the possibility of any reasonable doubt that bank debts, equally with private debts, are completely self-liquidating.

CHAPTER VIII

MAJOR DOUGLAS AND THE BANKS

ANY search into the origins of Social Credit theory leads inevitably to an examination of Social Credit views on banking. As we have already seen, the doctrine of which Major Douglas is the chief exponent grows, to a very large extent, out of a complete misunderstanding of banking technique. Although the economic theory formulated and presented to his adherents for their advocacy is expounded in a variety of ways and by the use of arguments which may have no obvious connection with banking procedure, yet it is probably true to say that, but for this initial misunderstanding of banking technique, Social Credit would never have emerged as a positive economic creed. In an article in *The New Age*, January 22nd, 1925, headed "A plus B and the Bankers," Major Douglas said: "Notice that this theorem depends fundamentally on the problem of the beneficial ownership of credit."

At the back of Major Douglas' mind, and the minds of those who think with him, is a deep-rooted suspicion of the banks based on a misinterpretation of the process of credit creation. They have realised with a shock of surprise that banks can and do create money, as they believe, costlessly, and they proceed at once to the assumption that the banks are the owners of the money so created. They know that if they themselves were able to produce money out of nothing they would expect to have a proprietary right over it, and they really do assume, either directly or by implication, that when banks create it the underlying principle is just the same as though a private individual did so for his own benefit. They do not see that when a bank brings new money into existence, by granting a new loan or making a new investment, either of which automatically creates a

new deposit, it is acquiring no proprietary interest whatever in the new money, but is merely increasing the volume of money which is owed *by* one section of the community, and owed *to* another section of the community, the depositors.

That Major Douglas is labouring under such a misapprehension is made abundantly clear by his published writings and speeches. At Belfast on November 24th, 1936, he said :

It is the claim to the ownership of the money which is the core of the matter. Any person or any organisation who can create practically at will sums of money equivalent to the price values of all the goods produced by the community is the virtual owner of those goods and, therefore, the claim of the banking system to the ownership of the money which it creates is a claim to the ownership of the country.

Again, in his book *The Monopoly of Credit*, he commits himself to the definite statement that "a bank acquires securities for nothing."

The New Age of August 16th, 1923, contained the following from the pen of Major Douglas :

Underlying all this more or less technical criticism, however, is a much more fundamental difference of opinion, a difference of opinion which is quite vital. Mr. Hawtrey agrees, and I have frequently and publicly quoted him as agreeing, that bank and financial institutions can create purchasing-power—that is, effective money. Mr. Hawtrey or anyone else would agree that this money is a claim on goods and services. Mr. Hawtrey or any other instructed person would agree that there cannot be two real effective claims on the same goods and services at one and the same time. Shorn of its technicalities and of its extraordinarily elusive detail, the point at issue is : Who should own the purchasing-power which lies hidden in the unused powers, as well as the used powers, of credit purchasing-power creation, possessed by financial institutions? So long as these institutions possess it, the individuals forming the public cannot have it unless Mr. Hawtrey or someone else can prove that the whole of one thing can be in two separate places at one and the same time.

In *The New Age* of October 22nd, 1925, he declared :

Now a banker actually creates money just exactly as though he coined or printed treasury notes. He loans this money, which

is an assertion by implication that the money belongs to him. You do not lend something which belongs to the person to whom it is lent.

As recently as July 26th, 1936, in his Ashridge address Major Douglas was still thinking of the banking system as a predatory institution claiming and securing a proprietary right over the public's credit. After saying : " I would ask you to realise the absurdity of a complaint against the private ownership of, say minerals, when there is an international private ownership of credit," he went on to enunciate the principle :

that the debts created by the inevitable creation of capital assets (which Mr. Hawtrey calls fixed assets) shall be distributed and not annexed by a predatory banking system, thus providing the population with the economic security they have earned, and abolishing the struggle for markets.

A great deal more to the same effect might be quoted from Major Douglas' published writings and speeches, but the above are more than sufficient to establish that, in his view, the banking system acquires a proprietary interest in the credit money it creates, and in consequence becomes the potential owner of the goods and services which may be bought with such money.

It is only to be expected that the followers of Major Douglas should be equally distrustful of the powers exercised by the banks, and many pages might be filled with examples of the crudities into which these opinions lead them. The following, however, may be taken as typical of the manner in which they accept his interpretation of banking technique and, by applying it literally, land themselves in a position of palpable absurdity. The leading Australian Social Credit publication, *The New Era*, contained, in its issue of May 30th, 1935, an article by the editor Mr. Barclay-Smith, in which the following appeared :

What astonishes the student of these affairs is that banks can and do put up such spirited opposition to these claims, and keep their staffs on niggardly salaries, *when the said salaries do not cost the banks so much as a brass farthing to pay !*

When it is said in Social Credit literature that "practically all money originates as a debt to the banks," the statement is qualified by the fact that all bank salaries are paid by the simple process of entering a credit in the account of every person employed, and that this money carries no encumbrance of debt. It is literally true, therefore, to say that the payment of their staffs (not to mention the erection of their buildings) costs the banks nothing.

It is difficult to see how any intelligent person could seriously give credence to such a nonsensical statement. It carries its own refutation, for if banks really possessed such a power of creating unlimited wealth for their own use, there need be no limit to the profits they made and those profits would certainly never fall below whatever figure they desired should be reached. Yet although banks are usually comparatively prosperous institutions, they are, on occasions, forced to reduce their dividends and may even become bankrupt in periods of financial stress.

The reality is, of course, that the whole banking system is subject to the same strict financial laws which govern any other business. Its transactions are calculated to yield it a margin of profit and out of its gross profit it must meet all its salaried costs and overhead charges. A bank is, in fact, in no different position from a merchant making a substantial profit by buying and selling. The commodity in which the bank deals is money and its net profit is the difference between the earnings of its loans and investments, plus any charges it makes for its services, and the sums which it pays to its depositors as interest on their deposited money, plus its salaried costs and its overhead charges. To suggest that it is able to create the means of payment with which to defray all its costs, is a stupid caricature of the truth.

It is true that Major Douglas disclaims any intention to dispute the integrity or technical ability of bankers. He does not blame individuals; he blames the system which gives them the right to use the community's credit as their own private monopoly. He points out that the public cannot create credit for itself, but the banks can and do create it, and, having created it, they lend it to the public

on terms which involve its repayment to the banking system. He completely overlooks the fact that banks cannot create credit for themselves, although they can, and do, create it for the service of the public.

Superficially, it may seem to be evident that if the banks can create money by a mere book entry, and can lend this money and insist on its repayment, the community is, by the process, becoming indebted to the banking system for all the credit money which it requires to use. Here then, says Major Douglas, is an irrefutable proof that the system is not self-liquidating.

His analysis professes to discover an inherent fault in the costing system, which involves a continual deficiency of consumer purchasing-power. According to this analysis, the industrial system is continually creating costs, for consumers to meet, which are in excess of the purchasing-power distributed to consumers and available to meet these costs. If this were a real reflection of the facts, the result would be a steady accumulation of unsold goods until the system broke down through the sheer weight of undistributed goods.

This is clearly not the real position. Major Douglas has to find an explanation for the continuous functioning of a system which, he maintains, is in chronic disequilibrium. He professes to find the explanation in a growing indebtedness to the banking system. It will readily be seen, therefore, that a correct interpretation of banking procedure is indispensable to a clear understanding and an accurate judgment of Social Credit theory.

What, then, is this process which, in Major Douglas' view, places the public in a position of servitude to the banking system? As we have already seen he would reply that it is the process by which the banks are permitted to create new credit money and issue it in the form of debt. To point out that they are limited in this connection by the action of the Central Bank in increasing or decreasing the cash basis available to the Joint Stock Banks would not meet his point. It is, of course, a generally recognised fact that only when their proportion of cash to total deposits is increased by the action of the Central Bank, do the Joint Stock Banks resort

to the process of new credit creation. But Major Douglas would quite rightly point out that this cash basis has from time to time been increased, and with each increase the banks have proceeded to enlarge the credit structure resting on the cash basis, until an amount of new credit has been added which is nine times as great as the amount of the new cash.

This much may be freely conceded.

The attempt which is sometimes made, by orthodox defenders of the banking system, to show that banks do no more than lend the money which is deposited with them, is based on a specious argument which tries to prove too much. The indisputable fact is that, by the action of the banks, £1,000 of new cash, deposited with the banking system, is built up into a total of £10,000 of deposits by the addition of £9,000 of credit money.

It is true that as a matter of prudence the banks reach this result only by gradual steps, lending at each stage an amount equal to the amount of their surplus cash ; but, taking the system as a whole, and keeping in mind the average call which depositors make upon a bank's cash, the correct view appears to be that in lending an amount which is equal to the amount of its surplus cash, the bank is really lending a claim on itself which will absorb only one-tenth part of the surplus cash. If the cash is lost to another bank, the second bank proceeds with the process of further credit creation ; but if the first bank receives, from other sources, as much cash as it loses, it can continue its lending until an amount of credit money has been created, which is nine times the amount of the addition to its cash.

The limitation of the amount of the lending, at each stage, to the amount of surplus cash held, is therefore no more than a matter of prudence, and is intended as a precaution against the possibility of a movement of cash within the banking system. The critical fact is, however, that from each loan accrues a new deposit, and the subsequent loans do not mean that the bank is re-lending these deposits, but that it is continuing the process of credit creation on the basis of its still unabsorbed cash. The proof of this may be found

in the fact that, when the cash is finally absorbed, the process ends, *not with the lending of money previously deposited, but with the re-deposit of new money placed, by the bank, to the account of the borrower and, by him, put into circulation.*

The question is, therefore, what is the meaning of this process of credit creation, and what, precisely, is involved in the operation? Let us take a typical transaction, and by following it through, trace out the effect of such transactions on the banking system, and on the public.

We will suppose that Mr. Brown, a tradesman in a small way of business, goes to his bank for an advance of £100, and that as this particular issuing bank finds itself in control of an increased amount of cash it is in a position to lend. Under such circumstances, and provided satisfactory security is forthcoming, we may assume that Mr. Brown will obtain an advance of £100, and the loan will represent new credit created upon the basis of the surplus cash.

The bank creates this money out of nothing. That much may be deduced from the fact that *it is an addition to the total amount of money previously in existence.* It does so by placing the £100 to the credit of Mr. Brown, whose account now contains two new entries. On the debit side is an amount of £100 owing to the bank, and on the other side—in his current account—is an amount of £100 standing to his credit as a deposit.

The point which it is necessary to make here, and which it is essential should be clearly grasped, is that at this stage Mr. Brown is in the position of both *borrower* and *lender*. He acknowledges a debt of £100 to the bank and the bank acknowledges a debt of £100 to him. If one might imagine that for some reason he decided to leave his deposit undrawn for a certain period, there can be no disputing that the position would be as follows. On the bank side the debit and credit entries would cancel each other out. The bank's only gain on the transaction would be the profit which it made in consequence of the fact that the interest which it charged Mr. Brown for the service of his loan exceeded the interest, if any, paid to him in respect of his deposit.

On Mr. Brown's side also, the debt of £100 to the bank is balanced by the deposit of £100 with the bank, and his net liability is simply for the payment of the difference between his loan charges and his interest earnings. That is the position at the outset, and it continues to be the position so long as the £100 remains undrawn.

Now let us take the matter a stage further. We will assume that Mr. Brown owes £100 to Mr. Smith for materials which have been supplied to him in his business. He therefore draws a cheque for £100 and pays Mr. Smith. Mr. Smith in his turn pays the cheque into his account, which, for simplicity, we will assume is with the same bank. When the bank receives the cheque paid in by Mr. Smith, and only then, it cancels the deposit which stood in Mr. Brown's name and transfers the amount of the cheque to the credit of Mr. Smith. In the first instance we found that Mr. Brown was in the position of both borrower and lender, and the bank was merely the agent, making its profit on the transaction. To what extent is that position altered now? Mr. Brown is still the borrower, but he is no longer the lender, since his deposit is exhausted. Instead, Mr. Smith is the lender, because the deposit has been transferred to his account.

The position of the bank, however, remains, in all essentials, the same. It is liable to Mr. Smith for £100, and it has lent £100 to Mr. Brown. Its assets exactly balance its liabilities. It is merely an intermediary between Mr. Smith, who has, for the moment, £100 which he is lending through the banking system, and Mr. Brown, who required £100 and has borrowed it through the banking system. At a later stage Mr. Smith may pay £100 to Mr. Jones, who will then take over the function of lender, and however many times the transfer of this particular £100 takes place, there will always be, at the end of the chain, a lender who is providing the deposit by which Mr. Brown's loan is supported. For simplicity, the argument has assumed that the amount of the loan is passed on intact. In reality, of course, it might be used to make a number of payments, to a total of £100. But this would not make the slightest difference to the result.

The fractional parts would, at each transfer, return as parts of the deposits of various customers of the bank.

Throughout all these changes the banking system remains simply the link between borrower and lender, and there never is a point at which it has any proprietary right over the £100.

It is important to remember that these various transfers of balances, from one depositor to another, do not increase the lending capacity of the bank. The £100 paid in to his account by Mr. Smith does not provide the banking system with any new money for lending. This particular £100 has already been lent to Mr. Brown and until he repays it the banking system cannot lend a further £100 except by an entirely new creation of credit. It is in fact a mistake to suppose that a bank lends its *deposits*. It always lends on the basis of its cash. Such loans are therefore claims, not on the bank's deposits, but on its cash ; and since by the use of the cheque system only about £100 of cash is required to serve a loan of £1,000, banks can safely lend nine or ten times the amount of their cash.

We have traced the progress of a typical bank loan and seen that at no stage does the bank acquire a proprietary right over it. There remains, however, the question of its repayment and cancellation. If Mr. Brown has deposited good collateral security with the bank, it may be prepared to allow the loan to stand for a considerable period. On the other hand, it may be only a short-term loan. But sooner or later the bank will require repayment. Now there is only one way in which Mr. Brown can repay his loan, and that is by accumulating £100 from some source and paying it into his account. By collecting the £100 he reduces total bank deposits by that amount, and by paying it into the bank he restores total deposits, but with the £100 transferred to his account. In other words, he has got back to the position from which he started and is once more both borrower and lender.

The loan has served the purpose for which it was intended. It has enabled Mr. Brown to meet his business liabilities whilst remaining the debtor of certain unspecified members of the community, and now that he has acquired claims on

the community equal to the amount of his indebtedness, he is in a position to balance his account.

So far as Mr. Brown is concerned, he would say that he has accumulated £100 in his current account, and is now able to repay his bank loan. So far as the bank is concerned it would say that there has been a redistribution of deposits. Certain depositors have £100 less to their credit and that £100 now stands to Mr. Brown's credit. When he now repays his bank loan he brings the deposit back into the same account with the loan and enables the bank to cancel one against the other.

That is the whole life story of a bank-loan. The bank brings it into existence as both loan and deposit—a debit and a credit in the account of the same client. The client has the right to separate loan and deposit, the negative and positive of his account, and send the deposit circulating around the banking system. But eventually the positive deposit must rejoin the negative loan, and only by this reunion of positive and negative can deposit and loan be cancelled against each other and allowed to drop out of the banking system.

If this process is clearly understood, it will readily be seen why banks are so insistent on adequate security for their loans. They are bound to assure themselves that the would-be borrower can guarantee to complete the circuit of his deposit, and bring it back to his own account within a reasonable period, because, should he fail, the bank would be under the obligation to meet the deposit out of its own funds.

All bank credit money may be viewed as a quantity possessing these two elements—a positive and a negative. A unit of credit money can only come into the system as a combination of positive and negative, and it can only go out of the system as a complete combination. While it remains within the banking system, however, the negative and positive elements may be separated by the action of the borrower, who remains debited with his loan but passes on his credit. But, always, the obligation rests on him to reunite the negative and positive elements in his account,

within the prescribed period, so that this particular portion of credit money, having served its purpose, may be allowed to drop out of the system.

The banking system cannot gain an asset by the creation of positive and negative in conjunction ; it merely creates a neutral quantity, which only becomes an asset to one member of the community, and a liability to another member of the community, through the separation of its elements. In just the same way, the cancellation by the bank of loan and deposit in conjunction, leaves its balance of assets and liabilities undisturbed.

Neither by bringing a unit of credit money into existence, nor by cancelling it, does the banking system either gain or lose an asset which is not balanced by a liability similarly gained or lost. Throughout each transaction the banker benefits only from the circumstance that, as a dealer in credit, he charges more for the service of his loans than he pays to his clients as interest on their deposits. The clear inference to be drawn from all this is that the action of the banking system in issuing and retiring credit money does not create any community debt excepting one owed to the community itself. The *balance* of assets and liabilities both on the side of the banking system and equally on the side of the public remains undisturbed, and the only effect of such operations is to increase or decrease the total volume of money circulating amongst the community.

Although it appears to be an *idée fixéé* amongst Social Crediters that the exercise by the banks of their function of creating new credit money confers on them a monstrous advantage, altogether apart from their ordinary banking profit, the real fact is that the only criticism which—in this matter of creating new credit—can be levelled against them with justice, is that they are able to *increase their business* with little or no additional use of their own capital. By increasing the amount of money which the community is using, the bank automatically expands its business and consequently increases its profits, but it does not acquire any proprietary right, either immediate or prospective, over the new money it creates.

The fact that the banking system has this power to create new money has confused a tremendous number of people. At first sight, it appears to be a natural assumption that, having brought it into existence, the bank has some proprietary right over it ; some right which it does not possess in the case of existing money paid to it by a depositor. Yet the truth is that a bank cannot lend at all without adding to its deposits. Its lending is always the result of an addition to its cash, and the process is the same whether the cash is merely transferred from another issuing bank, or whether it is new cash put into circulation by the Central Bank. If a cheque is drawn on one bank and paid to another bank it is treated as a transfer of cash and it accordingly reduces the paying bank's lending capacity and correspondingly increases that of the receiving bank.

But whatever the source of its additional cash, a bank does not actually lend this cash, it lends credit money on the basis of the cash, and it cannot lend without adding to total bank deposits. If a customer deposits cash, the bank incurs a liability for the amount of the deposit, but it gains at the same time an equal asset in the form of the cash. When the same bank lends on the basis of its new cash, it gains an asset in the shape of the loan and incurs an equal liability in the accruing deposit.

It follows therefore that every bank debt is an internal debt within the community. If Brown owes £100 to the bank, and the bank owes £100 to Smith, or Jones, the debt cancels itself out within the community. If Brown borrows the money directly from Smith, or Jones, it will clearly be an internal and self-liquidating debt, and the position of the community as a whole will not be affected. As a result of the transaction, a demand on goods or services equal in value to the amount of the debt will be transferred from the lender to the borrower.

If the debt is never repaid, Brown has benefited at the expense of his creditor. The former has obtained the right to consume £100 worth of goods ; the latter has lost it. Such debts, whatever their volume, can only mean the transfer, from one person to another, of claims on goods,

and cannot in any way affect the question whether the economic system as a whole is, or is not, self-liquidating. From the point of view of the economic system, they have no more significance than would the circumstance that Mr. Brown borrows a pound note from Mr. Smith this week, and repays it next week.

The only difference between these obviously internal and self-liquidating debts and the bank debts which we have been considering is that the latter may represent additions to the total volume of money circulating amongst the community, and are, moreover, guaranteed by the banking system. Instead of Brown borrowing £100 of existing money directly from Smith, he borrows indirectly from Smith, through the agency of the banking system, and the process is that the bank monetises his debt to Smith. In the first place, however, it examines the financial position of Mr. Brown and assures itself that he can repay his debt, and with this assurance it stands guarantor for the repayment. Smith, having deposited his money, relies, not on Brown, but on the bank for the security of his deposit.

There can be no doubt whatever that every debt owed to a bank, whether in respect of an advance to a client or of an investment, is supported by an equivalent bank deposit. It must follow, therefore, that deposits and debts cancel out within the system.

In order that there might be anything at all in Major Douglas' claim—which we have dealt with in the previous chapter—that the rise of debt is an "indisputable proof that the system is not self-liquidating," he must be able to prove that such debt is owed, by the community as a whole, to an entity outside the community. Every member of the community, whether he be a debtor to the banks or a depositor with the banks, is a consumer. It follows that if consumers *as a whole* were becoming indebted to the banking system, and if these debts proved that the economic system was not self-liquidating, they would have to be incurred by the *whole community*, to the banking system *as an organisation outside the community*.

Major Douglas really appears to hold the view that,

although the banking system is administered by individual members of the community, it is in effect run as though it were being administered on behalf of the inhabitants of another planet. He believes that debt is continually being incurred to these imaginary proprietors—who claim the ownership of all creations of new money—a debt which accumulates, and is never finally discharged, but which involves that purchasing-power is drained away from the community whenever loans are repaid and the money is retired.

If the nature of bank debt is rightly understood, it will be seen that such a belief is grotesquely untrue. At any moment, debts owed by the community to the banking system are exactly balanced by claims by the community on the banking system. Every such debt could be wiped out by confiscating all bank deposits, but the result would merely be a wholesale repudiation of obligations entered into, and the transference of claims on goods from creditors to debtors. Even as a piece of deliberate confiscation, it would be singularly stupid and ineffective, because it would achieve nothing more than the transfer of claims on goods from people possessing an acknowledged title to them, to another set of people who had voluntarily parted with those claims and received a consideration for their surrender. The fact that it is theoretically possible, however, to wipe out the whole of the community's debt to the banking system, by wiping out at the same time the community's claims on the banking system, is conclusive proof that bank debts are no more than the recording of claims by one part of the community as creditors on another part of the community as debtors.

Major Douglas' "quite indisputable inductive proof that the present financial system is not merely not self-liquidating but is decreasingly self-liquidating," is therefore—if one may be permitted to borrow his phraseology—not merely not indisputable but is no proof at all.

In the light of these facts, which inevitably emerge from a careful examination of all the circumstances, what becomes of the definite assertions made by Major Douglas,

which are quoted in the earlier part of this chapter? Let us re-examine them and see whether they can in any degree be reconciled with the facts.

Any person or any organisation who can create practically at will sums of money equivalent to the price-values of all the goods produced by the community is the virtual owner of those goods.

If Major Douglas does not mean here that by issuing money the banking system is acquiring an asset without incurring a corresponding liability, it would be difficult to find any meaning at all in the passage. Yet it is a completely false deduction. Apart from the investment of its own private capital, whenever a bank acquires a right to the repayment of a loan, it at the same time incurs an obligation to surrender the amount of the loan to a depositor. A bank has the trusteeship of money it creates, but never the ultimate ownership.

“A bank acquires securities for nothing.”

A bank does nothing of the kind. It purchases securities and pays for them by a cheque drawn on itself. The cheque returns to the banking system as a deposit, and the banking system as a whole has gained an asset—the investment, and incurred a liability—the deposit. If the bank went into liquidation its investments would have to be sold to meet its liabilities to depositors, for in the last analysis the investment belongs to the depositor, the bank receiving, as its profit, the difference between the cost of the deposit and the earnings of the investment.

Who should own the purchasing-power which lies hidden in the unused powers, as well as the used powers, of credit purchasing-power creation, possessed by financial institutions? So long as these institutions possess it, the individuals forming the public cannot have it unless Mr. Hawtrey or someone else can prove that the whole of one thing can be in two separate places at one and the same time.

Here, again, the suggestion is perfectly plain. Major Douglas believes that the right of consumption, conferred by the purchasing-power brought into existence through

the action of the banks, is at present owned by the banks and not by the public. He is completely mistaken. Banks cannot spend the credit money they create, but that right is possessed, first by the borrower in his capacity of original depositor, and then by each subsequent depositor. In reality banks do not create *purchasing-power*. They create a neutral quantity consisting of an equivalent asset and liability. Only the separation of loan and deposit by the borrower releases the deposit for use by the public as *purchasing-power*.

Now a banker actually creates money just exactly as though he coined or printed treasury notes. He loans this money, which is an assertion by implication that the money belongs to him.

The assertion that a banker creates money exactly as though he minted coin, or printed notes, is ludicrously untrue. If he could manufacture cash, he would be independent of the Central Bank; would have no need to provide himself with proprietors' capital, and would be able to secure whatever profit he desired, regardless of business losses. When a counterfeiter prints notes and succeeds in putting them into circulation, he has obtained possession of an asset without incurring any liability. The liability may fall on a member of the public who pays the notes into his banking account and finds them dishonoured, or, if they are such perfect imitations that they remain in circulation, the public as a whole will carry the liability, through having its currency inflated by notes which have not come into circulation by the normal channel of goods production or exchange.

But when a banker creates money, it is a totally different matter. He monetises a transaction which a client proposes to undertake, and enables him to meet his indebtedness to his prospective creditor by incurring a similar indebtedness directly to the bank, but indirectly to depositors generally. In such a case no one gets the value of the new money for nothing. The bank gets an equal asset and liability; the borrower gets the means of meeting one debt, but has

to incur an equivalent debt, and the creditor receives payment for goods the production costs of which he has incurred as his liability.

To say that because the banker loans the money he is by implication asserting that the money belongs to him is, in reality, a fatuous statement. It is at least equally the case that, because Major Douglas objects to the loaning of the money, he is by implication asserting that it belongs to the borrower. The reality is that neither the banker nor the borrower has any title to the absolute possession of the money. What both of them get is an equal balance between an asset on the one side and a liability on the other.

I would ask you to realise the absurdity of a complaint against the private ownership of, say, minerals, when there is an international private ownership of credit.

There is no private *ownership* of credit, international or otherwise, except in the sense that an individual owns his own credit. Major Douglas implies, however, that the banking system has usurped the private ownership of credit, and in this he is totally wrong. It would be correct to say there is a private *exploitation* of credit by the banking system, in the sense that banks issue credit and make a profit by the transaction. But to speak of the *ownership* of credit by the banks is to use wrong and misleading terms.

The debts created by the inevitable creation of capital assets . . . shall be distributed and not annexed by a predatory banking system.

What, precisely, does Major Douglas desire to have distributed, and what is he charging the banks with having stolen? His phraseology is so curious that one is reminded of the harassed business man who, when threatened with the possibility of a capital levy, declared with resignation: "Well, anyone can have my overdraft."

One cannot credit Major Douglas with really contemplating distributing *debts* as largess to the public. Neither can one suspect the most predatory banking system of annexing

debts belonging to its clients. There is frequently a good deal of dubiety about the statements of Major Douglas, but taken in conjunction with other similar passages it becomes clear that he intends to accuse the banks of taking possession of the money they create, and that he proposes to recover possession of that money in order to distribute it to the public by "monetising" all capital assets as proposed, for example, in Clause I of his "Scheme for Scotland."

But we have already seen that the banks do not acquire a proprietary right over the credit money they create. They hold the loans as their assets for the security of their deposits, and if they were dispossessed of these assets the depositors would be the ultimate losers. The proposal that "the debts shall be distributed," in so far as it has any intelligible meaning, is a nonsensical proposal. The action of the bank in creating new credit money puts that money at the disposal of the community. The various depositors who in turn come into possession of it can use it in whatever way they desire. The borrower remains a debtor only so long as his debt is undischarged. The banker appropriates nothing except his profit. Within the framework of the system of private ownership, and production for profit to which Major Douglas subscribes, no single member of the community is robbed of anything to which he could prefer a legitimate claim. If the banking system did in reality appropriate the purchasing-power released by the creation of new credit money, it is inevitable that certain depositors must lose it. But where is the depositor who finds his deposit annexed by a predatory banker? It is true that the borrower, when, by the ordinary processes of trade and exchange, he acquires a deposit sufficient to cover his loan, finds it necessary to hand over that deposit to his banker. But what of that? He is merely discharging a debt which he could not meet earlier, and if he did not repay his bank loan he would be in the extraordinarily favoured position of having his business debts paid for him.

But Major Douglas would perhaps reply that the complaint

is that the banking system cancels the credit money when the loan is repaid. It certainly does drop out the loan and its balancing deposit from this particular client's account, and momentarily, in consequence, the volume of money at the disposal of the whole community is reduced. If the matter stayed there, total deposits upon which the depositing public has the right to draw would be that much less. But the matter does not rest there. The repayment and cancellation of the loan leaves the bank's cash intact and consequently it can immediately look around for another client requiring a loan, and having found a credit worthy borrower, it furnishes his account with loan and deposit and so enables the deposit to circulate once more through the banking system.

Major Douglas' fundamental mistake is that he confuses the banker's trusteeship of credit money with beneficial ownership. In *Warning Democracy*, page 104, he makes it perfectly clear that, in his view, banks claim this ownership, and we quote the passage because it expresses in the clearest possible terms, the belief which we have found to underlie his distorted view of banking technique.

The question at issue, fundamentally, is whether, when a banker creates and issues a loan, he should be repaid (which assumes that the loan belongs to him), or whether he should not be repaid (which assumes that the credit is a public asset). That is the simple and fundamental issue of this controversy, and upon the answer which is given to it, in my opinion, the present civilisation stands or falls.

It is an horrific thought that by venturing to disagree with Major Douglas' conclusions one might perchance be guilty of bringing about the downfall of civilisation. Yet the truth is that this "simple and fundamental issue" is not even remotely related to the facts, and the passage as a whole is grotesquely extravagant nonsense.

Were a borrower not called upon to repay his debt he would gain an entirely uncovenanted and unjust advantage, and other members of the community would suffer in consequence. If the banking system forgave its debtors and surrendered the interest earnings of its loans, it could

not meet its costs and pay interest to its depositors. It would have to charge depositors for minding their money, and the latter would find it cheaper to draw out their deposits and keep them in their own private safes. But, having surrendered their assets, the banks would be insolvent, and if they were allowed to continue in an insolvent condition, issuing paper money to depositors whenever it was demanded of them, the money accruing from the loans would remain in circulation although the loans themselves had been cancelled.

It is solely the obligation, imposed upon borrowers, to accumulate sufficient deposits to repay their loans, which takes the money out of circulation and enables it to be re-issued to other borrowers. The proposal that loans should be cancelled without repayment means that depositors could not be asked to surrender their deposits since they would be getting nothing in return, and in consequence the banks would have to suspend the issue of any further loans or embark on a policy of progressive inflation.

The assertion which Major Douglas makes that the repayment of a bank loan is an assumption that it belongs to the bank, and that the repudiation of the obligation to repay assumes that the credit is a public asset, is actually the reverse of the truth. Loans must be repaid *because* the credit is a public asset of which the banking system is the custodian. The repayment permits the credit to be placed at the disposal of other borrowers, each in turn having the use of the money upon the same terms, but no one receiving it as a gift. If on the other hand borrowers were presented with credit, which is a public asset, these individuals would be enriched and the community as a whole would be robbed of its credit.

If Major Douglas sometimes borrows a volume from a public library, he might try the experiment of applying his curious reasoning to the conditions attaching to his borrowing. He would then say: The question at issue, fundamentally, is whether, when a librarian issues a book he should require it to be returned (which assumes that the book belongs to him), or whether it should not be returned

(which assumes that the book is a public asset). The librarian would appraise the argument at its proper value, but when Major Douglas applies the same quality of reasoning to the banker's function as the custodian of public credit, he actually succeeds in convincing his followers that he is uttering a profound economic truth.

The process of analysing Major Douglas' pronouncements on the subject of banking procedure might be continued to much greater lengths. Always the same fallacious conception of a predatory banking system would be disclosed. Always the facts would show this conception to be entirely erroneous.

Bank debts are not the outcome of a vast spoliation of the public; they provide no evidence of a colossal indebtedness on the part of the community as a whole to its financial institutions. On the contrary, it can be demonstrated, to the last degree of certainty, that they are no more than the record of debts owing by one section of the public to another section of the public. Such debts in themselves are self-liquidating within the community and do not provide a single shred of evidence to support Major Douglas' belief that the economic system as a whole is not self-liquidating.

CHAPTER IX

THE FUNCTION OF CAPITAL

IF the argument developed in the preceding chapters has been followed, it will be seen that Major Douglas, commencing with an assumption that the community as a whole is suffering from a chronic deficiency of purchasing-power, goes on to allege as the reason for this supposed deficiency, an inherent defect in the pricing system. According to his reasoning the defect results in the building up of prices at a rate greater than purchasing-power is distributed. It will also have been seen that in order to meet the obvious criticism that such a defect would quickly bring about the total collapse of the system, he offers, as a major explanation of the fact of its continuous functioning, his theory of "the rise of debt."

The picture he paints is one in which the community is producing goods for its consumption, but is being supplied with purchasing-power sufficient only to acquire a part of the goods. The financial institutions are represented as meeting this situation by creating additional purchasing-power and issuing it to the community as debt.

In Major Douglas' picture the consumer is depicted in a state of chronic insolvency, compelled to shoulder an increasing burden of debt in order to pay the price of the goods which have been produced for his consumption. World debt, he tells us, is accumulating at an astronomical rate, and if the world must pile up debt in this fashion in order to consume what it creates, then obviously the system cannot be self-liquidating. He offers this theory of the rise of debt as a complete justification of his theorem, which in its turn is claimed to be a demonstration of the gap between purchasing-power and prices.

But a further point now emerges. If it were true that

such a defect existed in the pricing system, and that in order to make up the deficiency, the community as a whole was incurring debt which it could not discharge, there ought to be some tangible evidence of the debt. People who spend beyond their income and get heavily in debt, sooner or later become aware of their commitments and have some knowledge of their creditors. If the world, viewed as one vast body of consumers, is continually having to incur debt in order to consume the goods it needs, where is the debt recorded? To whom is it owed, and what is its nature?

We have seen that the answer which Major Douglas would make to the first part of this question is that the debt is owed to the banks; he completes his picture by adding a conception of accumulated capital as the vehicle by which this indebtedness is brought to the charge of the community. He sees the banking system creating and lending money to bridge the gap between purchasing-power and prices, but he notes that banks will lend only upon the security of permanent assets, and he reaches the conclusion that the financial institutions are in process of becoming the virtual owners of the whole of the community's capital goods.

The particular process which he visualises is one by which the community pays the prime costs of capital goods, but having paid for them does not own them. In *Credit Power and Democracy*, page 30, he says:

Although the unregulated system of credit-issue and price-making distributes purchasing-power both in respect of capital production (tools, factories, intermediate products) and ultimate products (necessaries, services, amenities) it takes back in the prices of ultimate products only, practically the whole of this purchasing-power, leaving the community, considered as a permanent institution, in the position of having bought both the plant and the product, but having only got delivery—i.e. control—of the product.

This is, of course, another way of expressing his belief in a defective pricing system; but it is more—it is a reference to the cause which in his view underlies this defect. The necessity imposed on the consumer to pay for capital

goods is the explanation of the gap between purchasing-power and prices. His view is that by this process the public are charged with the cost of capital goods which they do not acquire, and are not supplied with money to enable them to meet the charge. The difficulty is temporarily overcome by the issue of further loans by the banks, but only on condition that such loans are expended in the production of capital goods.

According to his reasoning, therefore, the community, having provided itself with capital goods, is forced to shoulder a burden of debt to its financial institutions in respect of those goods. The remedy which he proposes, to meet this situation, is in effect the "monetisation" of the debt and its "redistribution" to consumers.

Now a moment's careful consideration is sufficient to show that consumers do in fact *acquire* capital goods in the final products which they buy. Just as it is true that the public is paying, in the price of every article which it consumes, a fractional part of the cost of buildings, plant and equipment concerned in its production, so also it is true that the reason such a charge appears in prices is because a fractional part of those assets has been consumed in the process of manufacture. Capital goods, just as surely as raw materials or semi-manufactures, are used up in the manufacture of final products, and it is clearly necessary that consumers should defray *all* the costs incurred in production. If prices were in fact fixed without consideration to the wastage of capital goods, the system would certainly not be self-liquidating because consumers would be benefiting by the consumption of capital goods without contributing anything toward their maintenance and replacement.

Possibly Major Douglas, and certainly many Social Crediters, would reply that the public—and in this view the public is synonymous with consumers—do in any case provide and maintain all capital goods. But such an argument fails to distinguish between the physical act of providing the assets and the monetary payment necessary in order correctly to allocate their cost. On the physical

side the assets have been provided and are maintained by certain members of the community, but these same members in all probability will not consume the final products. On the other hand, the particular members of the community who consume the products may have had no part in the provision of the assets. The monetary payments to members of the public as producers, and from members of the public as consumers, are the medium by which industrial costs are allocated to the particular individuals on whose behalf they were incurred.

It is clear, therefore, that although the community, viewed as a totality of producers and consumers, does provide and maintain all capital goods, nevertheless, under a system of capitalistic production, those people who have been concerned in the work of providing the assets have been paid for so doing. This is made possible by the existence of financial capital and in effect the accumulated capital of the community bears the cost of rewarding the creators of capital goods and the sum has to be repaid by the final consumers. It is possible that some of the difficulties of Major Douglas arise from a failure to distinguish between the physical act of industrial production, which may be viewed as an act of the community as a unit, and the financial adjustment involved in a capitalistic society, which is essentially a differentiation between individuals. However this may be it is quite certain that since the members of the community concerned are financially recompensed for every contribution which they make to industrial production, those members concerned in the consumption of final products must, by a return financial payment, liquidate all the costs incurred.

Yet the fact remains that Major Douglas is firmly convinced that consumers are called upon to pay the prime cost of capital goods as an entirely superfluous charge—superfluous, that is, from the point of view that they have not been supplied with the means of meeting it. Moreover, whatever confusion there may be in the minds of certain of his followers on the subject, so far as he is concerned ordinary maintenance charges are not the source of his

difficulty. On page 24 of *The New and the Old Economics*, in reply to a statement of Professor Robbins, he says :

Under these conditions the amount of wages distributed on maintenance would obviously be added into the cost of the end products, and collectively with the wages paid to the final producers of end products would be sufficient to buy the end products, *always providing that no charges in respect of the original plant, buildings, and other capital goods which were merely being maintained, were charged in the prices of either intermediate or ultimate goods*, and that no one made a money profit.

Obviously what Major Douglas intended to say here was that the wages paid for maintenance, plus the wages paid *by* the final producers of end products to their workmen, *plus the wages paid in each of the prior stages of production of the same products*, would collectively be sufficient to buy the end products. But clumsily worded though his statement is, it is useful for the admission that ordinary maintenance charges are distributed, and inferentially for the suggestion contained that in actual practice the prices of end products *do*, in his view, contain charges in respect of the original capital goods in addition to the necessary charges for their maintenance.

This, then, appears to be Major Douglas' complaint : that in addition to meeting, in prices, the perfectly reasonable charges for maintenance, which have, of course, been distributed in payments for the work of maintenance, the consumer is called upon to meet a further charge in respect of the prime cost of the capital goods. Yet the absurdity of such a claim should require little demonstration. It implies that investors, or producers, immediately recover their capital, in addition to having the physical assets, in which the capital has been invested, maintained at the expense of consumers. If this really happened the industrial system would be a veritable paradise for the entrepreneur. The investment of a sum of money would result in the acquisition of a physical asset which would be retained at its full value although the purchase price had been recovered. In such circumstances there would be nothing to prevent a producer, who was operating

with his own capital, from building and equipping a factory and, whilst retaining complete ownership and control of it as a capital asset, proceeding to pass on to consumers the whole of the cost. Such a lucrative transaction would undoubtedly encourage him to repeat the process and he might continue indefinitely to pile up physical assets, with the same monetary capital, which, at the end of each transaction, would return to him in full.

But the case of the producer operating with a bank loan would be equally extraordinary. The proceeds of the loan would enable him to make the payments necessary to acquire the new buildings and plant, and when with the aid of these assets he commenced to put his products on the market they would quite properly contain in their price all the costs of production, including an amount sufficient to cover the maintenance of buildings and plant at their full efficiency. But in addition Major Douglas believes that the producer when making up his prices would have to include yet another item to cover the repayment of his bank loan.

Now if he did this it is surely obvious that he would have got his buildings and plant for nothing, and if he continued to put his products on to the market at the same price he would, at each turnover, have available, after meeting all his costs, a sum equal to the amount of the loan which he had repaid. If Major Douglas' assumptions were correct, therefore, he would gain his capital assets by marketing the products of his first production cycle and would increase his financial capital by an amount equal to the cost of the original assets as a result of each subsequent production cycle. A truly attractive prospect for the producer, but not one on the achievement of which he is likely to set any very high hopes.

Of course, the real position is that the producer does not expect to have his physical capital and be paid for it at the same time. He invests a certain amount of financial capital in the physical assets which he requires in his business, and so long as he has the assets he does not expect to have the money with which he acquired them. He

does ask that they shall be maintained in good order and replaced as and when they become worn out in the service of consumers, but so long as the assets are maintained at their full value he has not the temerity to ask for payment for buildings and plant which he still retains.

The fact that this part of Major Douglas' economic theory becomes so completely untenable when carried to its logical conclusion, induces some Social Crediters to seek a different interpretation. Their case appears to be that capital assets are paid for in the first instance by the public since their cost is borne by investors. Consequently when the public is called upon to pay in prices for the wastage of capital assets, it is paying, a second time, costs which it has already liquidated. This is an argument which is used by at least a section of his supporters. Because the public as a whole provides the buildings, machinery and equipment by which its final products are produced, it ought not to be called upon to pay again for the right to consume them. The emphasis in this case is thrown on the word *costs*, and the argument may be stated thus :

Industrial costs were originated by the creation of the new plant, and these costs existed in the form of a debt to the bank. The costs were liquidated by investors when the loan was repaid, yet the community is now called upon to meet the same costs a second time in prices. Underlying this idea is the belief which Major Douglas and Social Crediters generally hold that all money paid by consumers in prices is money on its way to the bank and therefore on its way to extinction, and consequently they arrive at the conclusion that the payments by investors and the payments by consumers are a double cancellation of the same costs.

But the reader who has followed the argument in the foregoing chapters will quickly detect the fallacy contained in this reasoning. Not all money collected from consumers and paid into the bank is destined for cancellation. Only those deposits which are passed to the bank for cancellation against a loan go out of existence, the remainder are held in custody by the bank as the property of the depositors.

When, therefore, new capital goods are created through the agency of a bank loan, the costs incurred exist at that point in the form of a debt owed to certain unspecified depositors through the agency of the bank. If at a later stage investors put up the money to repay the loan they are in reality acquiring the right to collect such costs from consumers *at the rate of consumption of the capital goods by consumers* and the money so collected will be used to maintain and replace the assets. It follows that payments for current maintenance and final replacement, included in prices, are payments to investors which will be used to maintain the capital goods at their full value and efficiency. All payments made by consumers are, in fact, payments made to the owners of capital, and the latter may or may not have to employ the whole or part of the sums received to meet liabilities which they in turn have incurred to the bank or to other individuals.

The correct view, therefore, is that although the public viewed as a whole has undoubtedly provided itself with capital goods at the moment they are brought into existence, only a section of the public has actually borne the cost of providing them. In other words the public viewed as a single unit has paid, but it does not follow that at that point the charge has been correctly distributed amongst the particular members of the public who will ultimately be liable, and a subsequent adjustment requires to be made. That adjustment is finally made when consumers use up the capital goods in the end products they consume, and pay in maintenance charges the sums necessary to replace them.

But to suggest, as many Social Crediters do, that the community pays the cost of capital goods when investors acquire them by the sacrifice of their immediate consumption rights, and that the community pays again when *at the rate of their consumption*, the cost of those assets is charged to the final consumers on whose behalf they have been consumed, is just as unreasonable as it would be to say that the public pays when the retailer acquires goods for sale and pays again when the consumer buys them.

Major Douglas appears never to have understood the real meaning of capital accumulation. He sees capital assets as a consumers' liability—a debt which the public cannot meet. Consumers pay for capital goods but never own them. The financial institutions have become the real owners through their usurpation of the community's credit. It is because he has this distorted view of capital that he proposes to liquidate what appears to him as an unjust and oppressive liability by distributing to the community the whole value of accumulated capital, in the form of national dividends and price reduction.

Having made the assumption that the public is charged again with the cost of capital goods after it has parted with the money distributed to it in respect of their production, his remedy follows as a natural method of treatment. Capital goods which have still to be paid for in prices although the purchasing-power has been recalled, must be a liability. What could be more appropriate than to wipe out this debt by re-issuing the cancelled money? What more equitable than to meet the second charge by a second issue of purchasing-power?

And if Major Douglas' premises be granted, no technical difficulty need be apprehended which would prevent such a re-issue of purchasing-power. In the fantastic economic world which his mind has conceived, the financial system has recalled the original issue, and cancelled it out of existence as simply as a figure is rubbed off a slate. The system which can so easily destroy, can as easily create, and he therefore proposes such steps as will compel the re-issue of the cancelled purchasing-power and allow it to function in liquidation of the outstanding costs.

But we have already shown that his conception of the banking system usurping the ownership of financial credit is entirely erroneous, and his belief that industrial capital rests upon the community as a crushing burden of debt which they have no means to discharge is equally mistaken. The reality is that capital assets are nothing more nor less than stocks of goods or the means to produce goods, and potentially they can be viewed as a store of consumer goods.

Buildings, machinery and plant are just as much consumable goods as are the raw materials of industry. Their consumption is slower and is spread over a longer period, but their character is fundamentally the same.

A primitive community lives a hand-to-mouth existence ; its consumption follows closely upon the heels of its production. But wherever industrial life has become more complex, and more elaborately organised, the gap between production and consumption has inevitably widened. The subdivision of production into innumerable processes involves that at each point stocks of material and semi-manufactures of the various stages require to be held in store. Buildings, machinery, equipment and all the paraphernalia of storage and distribution become part of the comprehensive process by which final products are evolved from raw materials, and carried finally to the counter where the consumer acquires them by surrendering the monetary equivalent of their costs of production.

Every material factor, and every contribution of service, absorbed in the productive system, exists as potential final products held in store by the community, and the more complex the process becomes, the larger becomes the store. Now if the contributions to this necessary store were made in the appropriate proportions by the individuals who would ultimately consume the final products, such contributions might be accepted as cancelling the costs, and obviating the necessity for their inclusion in prices. In such a theoretical case, of course, no payments would be made for the contributions, and the work of maintenance and replacement would equally be an obligation resting upon the people who would finally consume the products. If all members of the community participated equally in production, and if the product were equitably distributed, there would be no need at all for monetary payment. The price of consumption would be service, and there would be no industrial costs to liquidate. It is possible to imagine such a situation in which plant and equipment would be communally owned and where the work of maintenance and renewal would be a direct charge on the labour of all the

members of the community. But the conditions which would apply in that case could not apply in a system of private ownership of the means of production.

What Major Douglas fails to realise is that the obligation imposed on the consumer to pay the owner of capital for the wastage of capital assets is inseparable from a system in which production and consumption are organised, not on a basis of social service, for the satisfaction of human needs, but solely on the basis of privately owned capital operating for private profit.

As an economic unit, the community has acquired certain assets, but these assets are not communal property ; they are the private property of a capital-owning class. Consumers as such have no rights over this property. They have been paid for all they contributed, and must pay in return for all they take. This fact of private ownership of the machinery and materials of production is really the rock on which Major Douglas founders. Under the system of private ownership, and production for private profit, all the machinery of production, and all stocks of consumption goods available for distribution, are privately owned by the owners of capital. Consumers, *qua* consumers, own nothing but the purchasing-power which has come to them through their participation in production.

It is useless for Social Crediters to criticise the morality or the expediency of this circumstance ; it is the inevitable consequence of the system, and cannot be altered within the framework of a capitalistic society. At the very heart of the present economic system lies the legal right of a section of the community to possess the whole machinery and material of production. So long as this right remains, the consuming public must pay, as the price of consumption, all the costs of production, including the upkeep and maintenance of capital assets.

Capital, then, is the community's store of consumption goods, or the means of producing consumption goods, but it is also a store which has been accumulated, and is possessed, by the owners of financial capital. It is the representative of the physical wealth of the community con-

sidered as a unit, but it is owned very unequally by the individuals composing the community.

Major Douglas is in the anomalous position of defending the private ownership of real capital, and yet wanting to redistribute its financial equivalent. He cannot have it both ways. There is no method of having the cake of private ownership and eating the dividends of Social Credit at the same time. The value of capital assets can only be distributed once, and in our private property system it has already been distributed to the owners of invested capital.

There is only one sense in which accumulated capital is a liability. It is a liability falling on individual consumers, to pay to individual investors the fractional part of the value of their capital as and when it is consumed. To the community in its entirety it is an asset, but an asset which has been provided, in a financial sense, by only a section of the community. Its wastage must therefore be made good by the particular individuals who become the ultimate consumers. To suggest that this means that the vast human resources represented by accumulated capital constitute a load of oppressive debt resting on the *whole community* is totally to misunderstand its significance.

The possession of physical capital is, to the community as a body, a possession of tremendous value and importance. It makes possible a system of power production separated into numerous stages and spread over an extended period. It substitutes for the primitive implements and the hand tools of the individual producer, the power machines, factories, workshops and all the vast impedimenta necessary for modern production. It enables the community to plan its production over months and years and to live by consuming the results of past production on condition that it continually adds to this stock as much as it draws from it for current consumption. The possession of such a stock is a fact of supreme importance to the community as a whole, and on its maintenance the whole system of power production depends. But in building up this physical stock we have at the same time evolved a system of private owner-

ship which leaves it in the possession and under the control of the owners of financial capital. It is this private ownership of capital and the resulting unequal distribution of the ownership of physical assets which produces the results which Social Crediters deplore.

CHAPTER X

THE DOUGLAS CONCEPTION OF MONEY

LINKED up with the Social Credit theories which we have been considering, and fitting into the general scheme, is a conception of money as a goods ticket. Major Douglas believes that all money returned to the production system in exchange for consumption goods is money on its way to extinction. Such a belief leads naturally to the assumption that new money could, and should, be issued against all goods produced. Since, in his view, money functions once only for the purchase of goods, and is then destroyed by the banks, the banking system must be compelled to issue new money equal to the prices of all new consumption goods coming on to the market, and this money must carry no encumbrance of debt.

In *Warning Democracy*, page 50, he says: "The money system can accurately be described as a ticket system."

In a speech made at Oslo on February 14th, 1935, he elaborated the point as follows:

The classical economics works on the assumption that the nature of money is that it is a medium of exchange. That idea proceeds from a state of affairs which was, at any rate broadly speaking, true perhaps 200 years ago.

* * * * *

The idea was that you had a constant exchange of goods and services between, let us say, A, B and C, and the whole of the classical economics really is based upon that idea, that we are all of us producers and consumers in the economic sense, and that the function of money is to exchange between ourselves the goods and services which each of us produces.

Whatever may at one time have been the truth of this, it is, of course, patently not true now. The modern economic production system is not a system of individual production and exchange of production between individuals. It is more and more the synthetic assembly, in a central pool, of wealth con-

sisting of goods and services which are preponderatingly due to the use of power, to modern scientific processes and all sorts of organisations and other constituents which will occur to you. The problem is not to exchange the constituent contributions of each one of us to that central pool, because in fact our contribution to that central pool, in the ordinary sense of tangible economic things, is becoming smaller and smaller.

The correct picture—the incontestably exact picture of the modern production system—is, to my mind, based upon a kind of typewriter with a decreasing number of operators who are tapping keys, and by tapping these keys, fewer and fewer operators can produce all that we require. Through the power of the sun (oil power, steam power and so forth consist of what is generalised as solar energy) the so-called curse of Adam is being transferred from the backs of men to machines, so that a small number of persons operating on this machine of industrial “production” can produce all that is required for the use of the population; and the problem is not to *exchange between* the number of the population, who are less and less required to push these keys, but it is to *draw from* this central pool of wealth by means of what can be visualised as a ticket system. And the modern money system is in fact losing almost daily its aspect, however much that may at one time have been true, of a medium of exchange, and is becoming more and more a ticket system by which people who are not exchanging their production can draw from the central pool of wealth.

This passage illustrates once more the distorted reasoning by which Major Douglas arrives at entirely wrong conclusions from a given set of facts. He admits that money was originally a medium of exchange—a token used to represent goods and services and facilitate their passage from hand to hand on a basis of equivalent values given and received. He sees that a barter economy underlies any primitive monetary system, but he believes that power production has altered the character of money.

His contention is that modern methods of production require a diminishing contribution in human labour and, instead, draw increasingly upon the accumulated resources of mankind. In his view this change from hand production to power production justifies, automatically, a change in the method of distribution. Production, it is assumed, has become a process by which a pool of goods and services can be increased to an almost unlimited extent by utilising the

forces of nature and the accumulated resources of knowledge and invention. Distribution is the drawing upon that pool for consumption.

When production was laborious and restricted it was necessary that each individual should participate in production to the value of his consumption and secure the goods and services he required by exchange. But now that production is being maintained to an increasing degree by the use of natural resources, and to a diminishing degree by human labour, it is, in his view, no longer necessary for each individual to contribute as much as he receives. This is the kernel of Major Douglas' reasoning. Because production is becoming increasingly a matter of machines and the use of power, distribution is, in consequence, becoming a problem of issuing an abundance of titles to consumption. The anxiety to provide employment appears to him an unnecessary fetish, and this view follows logically on his belief that it is no longer necessary to give in order to receive. The conception of money as a medium of *exchange* conflicts with this view and he therefore abandons it and claims instead that it is merely the vehicle for distribution.

The assumption which he makes here is that the necessary contributions to production in a system of power production do not carry with them rights to the possession of the whole of the product. The argument is that the contributions need be made by only a comparatively few individuals but the product is assumed to be available for distribution universally. The inference to be drawn is that the product is not exhausted in meeting the claims of contributors and that there remains a surplus which can be distributed to non-contributors. It is here that his argument again breaks down, for Major Douglas accepts and fully approves the private ownership of the means of production and exchange.

If it were the case that the machinery of production was possessed in common by the whole of the population, and if whatever contributions were needed in order to operate this communal machinery carried no exclusive rights to the resulting product, it would be correct to assume that the consequent pool of goods could be distributed by whatever

method the public as a whole desired. But this is not the situation, and Major Douglas does not desire it to be so. The extreme illogicality of his argument arises from the fact that whilst recognising and desiring to maintain the private ownership, by a section of the community, of the machinery of production, he proposes to distribute the product by methods which disregard that private ownership. It is as though he were to say that he fully recognises his neighbour's private property in, say, a poultry farm, but at the same time proceeded to dictate the method by which the eggs should be distributed.

The owner of the chickens would reply that since they were his property, and the wages of his employees and all the other costs incurred were defrayed by him, the disposal of the eggs was entirely a matter coming under his control. In exactly the same way the producer of industrial products, having met all the liabilities to other individuals or organisations, is able legally to claim that his private ownership of the machinery of production confers on him the private ownership of the resulting product. Major Douglas appears to believe that the use of machines and the exploitation of inventions provides a fund upon which no one has a proprietary claim. In reality, what he visualises as a surplus is the reward of capital and is already earmarked for the payment of dividends, interest and profits.

The claim that the money distributed in the process of industrial production has, in consequence of the increasing use of machinery and power, changed its function, is entirely unjustified. Money remains, and must remain in a system of private ownership, a medium of exchange, and is in fact a title to a definite proportion of the product—a proportion which would immediately be disturbed if additional claims to the same goods were added to those already issued through the normal channels. However highly organised an industrial system becomes the retention of the principle of private ownership presupposes that claims on consumption goods are established by the money payments by which all services are remunerated. The individuals who have rendered these services receive, in exchange, a medium

which entitles them to an appropriate fraction of the goods produced, and when the money is returned in the prices of goods, it remains a medium of exchange in the hands of the producers and enables them to secure a repetition of similar services.

When Major Douglas declares that :

The problem is not to exchange the constituent contributions of each one of us to that central pool, because in fact our contribution to that central pool, in the ordinary sense of tangible economic things, is becoming smaller and smaller.

he is overlooking the contribution which the owners of capital make by permitting the use of their capital. This contribution enables them to claim the whole of the residue of the product after the claims distributed to the various participants have been met, and no additional claims can be introduced without either repudiating the legal rights of the owners of capital, or diminishing the existing rights of participants. The "central pool" of production does not contain more than will satisfy all the existing claims upon it, including the claims of capital, and the surplus which Major Douglas envisages as resulting from the greater use of machinery and power, is merely the share of the owners of machinery and the inventors or exploiters of the process.

Major Douglas is, in fact, doubly wrong when he claims that money is no longer a medium of exchange, but has become a ticket for goods. He is wrong, because in a society in which a comparatively small section owns the machinery of production and enjoys the exclusive right to exploit it, the bulk of the population can have no right to the product except what it can acquire in exchange for its various services. He is wrong also because money does not lose its value when surrendered in payment for goods, as would be the case were it merely a ticket for goods.

The difference between a ticket and a medium of exchange is that the former is an authority for one transaction only, and the latter is an unlimited authority for any number of transactions. For example, a railway ticket costing £1 entitles the holder to a particular journey, but on the com-

pletion of the journey it ceases to have any value. On the other hand, the £1 note used to purchase the ticket may be paid by the railway company to one of its employees as part of his wage ; may be used by the employee to pay his rent ; may be used by the landlord to pay his butcher ; by the butcher to pay his debt to a farmer ; by the farmer to purchase food for his cattle, or in wages to a labourer, and so on indefinitely. The one transaction exhausts the value of the ticket ; any number of transactions leave the value of the money unimpaired.

Now it is true that Major Douglas points out that money cannot liquidate more than one set of costs however often it changes hands. He refers to the matter in *The New and the Old Economics*, page 18, as follows :

At this point it may be desirable to deal with the common error that the circulation of money increases its purchasing-power, an error which seems implicit on page 19 of Professor Copland's pamphlet, where he remarks : " A given unit of money will circulate many times in a unit of time. It will make many payments, because it has what economists call velocity of circulation." I think that what Professor Copland means by this is that, if I pay £1 to the butcher for meat and the butcher pays the £1 to the baker for bread which the baker has supplied to the butcher, then two debts are liquidated. This is a complete and major fallacy. The butcher incurred costs, perhaps from a farmer in respect of cattle supplied, who in his turn possibly borrowed the £1 from a bank. In any case, if the butcher uses my £1 to pay the baker, he has broken the chain or (of) repayment from me to the farmer, and ultimately to the banker, and the costs which were created when the farmer sold his cattle to the butcher are not liquidated.

In so far as Major Douglas is contending here that the £1 paid to the butcher for meat and handed by him to the baker for bread, cannot meet both the baker's costs and the butcher's costs, he is entirely correct. But he appears to overlook the fact that the reason the butcher uses the £1 to purchase goods for his own consumption, is that it is part of his profit, and the fact that he has made this profit is evidence that he has realised a sufficient sum by the sale of the residue of his stock to cover his costs and pay his

debt to the farmer. The baker, too, may be assumed to have made a profit, and if he has sold, to the butcher, bread which represented his profit, and bought in exchange meat for his own consumption, the net result will be that butcher and baker will have exchanged the profit portion of their products, and each will have received sufficient money from the sale of the remainder of their stock to meet their costs. If the baker has £1 of the butcher's money, the butcher may have £1 of the baker's money, and it is quite unnecessary to assume that one portion of money cancels two series of costs.

On the other hand, it is quite correct to say that a given unit of *physical* money will circulate many times. In other words, that the £1 note received by Smith and paid into his banking account may be re-issued as part of Brown's credit balance, and when paid by Brown to Jones and again returned to the bank may be used to meet Robinson's demand, and so on indefinitely.

The significance of this is that physical money is *representative* money. A Joint Stock Bank may have £400 millions of deposits whilst holding only £40 millions of cash, i.e. physical money, and the rapidity with which this physical money circulates is really the factor which determines the proportion of cash which the bank requires to hold. The velocity of circulation of notes and coin is therefore simply an indication of the amount of work which physical money does on behalf of money in general.

But Major Douglas is not concerned with the fact that £10 in notes or coin may deputise for £100 of bank money standing at the credit of depositors. He is, however, concerned to point out that—whatever the procedure, and regardless of the fact that nine-tenths of the available spending-power lies comfortably tucked away in bank ledgers while the other one-tenth is scurrying around doing the manual work of the whole—£100 of purchasing-power is required to cancel £100 of costs.

He deserves full credit for appreciating, and insisting upon, the fact that the mere interchange of money, however frequent and however involved the process, does not lessen

the amount of purchasing-power required. He is entirely correct in his contention that it still remains necessary that the total amount of spending-power in the hands of the public shall be equal to the total volume of costs needing to be liquidated. But although he is right thus far he is wrong when he assumes that the public do not hold this amount. The distribution of purchasing-power is identical with the creation of industrial costs and is in fact a phase of the same process.

A certain amount of confusion undoubtedly arises because many people do not realise that the amount of physical money circulating at any given moment is not the correct measure of the purchasing-power held by the whole body of consumers. It is, on the contrary, no more than an indication of the rate at which those members of the public who employ cash to make their purchases are using up their spending-power. If all the members of the public possessed banking accounts and made the bulk of their purchases by cheque, the volume of purchasing-power would not be less than at present but the total amount of cash in circulation would be very much less. An interesting fact in this connection is that the increasing use of automatic machines, by constantly immobilising a considerable amount of cash, creates an increased demand for physical money, but does not, of course, increase the volume of purchasing-power.

Although it is true, therefore, that the money available to purchase consumption goods must be sufficient to liquidate all the costs incurred in their production, it is equally true that money is a medium of exchange, because, when it has completed the cycle and cancelled the costs, it can be used to repeat the same process and create a new series of industrial costs.

The circumstance that Major Douglas seriously maintains that money is no longer a medium of exchange but has become merely a ticket for goods, is alone sufficient to discredit him as an economist. The facts completely disprove his contention and show it to be devoid of any logical justification. Money is purchasing-power with a guaranteed and permanent value for any number and any description

of transactions ; a ticket receives only a temporary value for a specific transaction.

But, as we have seen, he believes that all money handed over by the public, in payment for consumption goods, is on its way to the banks and destined to extinction. It is from this belief that his conception of money as a ticket arises. Our earlier examination of banking technique and the process of credit issue has exposed the fallacy of this view. Money is not issued by the banking system merely in order to complete a single cycle through the production system to consumers and back to the banking system for cancellation. It remains in circulation for an indefinite period, effecting an unlimited number of exchanges, and returning for cancellation only when a bank loan is repaid. Even then, apart from a policy of credit contraction, the cancellation is only momentary, because the bank will immediately re-issue the money to another borrower.

The correct view is that a certain volume of money is maintained in circulation by the banking system, and this money continually passes from hand to hand by virtue of its function as a medium of exchange. When at some point it comes into the possession of a debtor to the bank, he may use it to wipe out his indebtedness. Momentarily, in such a case, his action reduces the volume of potential purchasing-power, but by re-issuing the loan to another borrower the bank restores the money to circulation.

Social Crediters profess to see, in the repayment of a bank loan, the completion of a cycle which has passed once only through the industrial system and they view the re-issue of the loan as the commencement of a new and similar cycle creating, in its turn, a new set of costs against consumers. The truth is, however, that there is no such correspondence between the repayment of bank loans and the completion of industrial production cycles.

A producer does not, normally, borrow from the bank to produce a particular batch of goods, and repay the loan out of the payment which he receives for the goods. If he did so, he would be under the necessity of going back immediately to the bank to negotiate a replacing loan. Obviously,

the position is that if he is carrying on his business with the aid of bank credit, he will have a continuous overdraft which will run for as long as the banker permits, or until he is able to provide himself with capital from other sources.

From whatever angle we approach the matter, although giving the fullest consideration to the grounds on which Major Douglas arrives at his conclusions, it is impossible to find the slightest logical justification for his claim that money has ceased to be a medium of exchange and has become, or should become, merely a ticket for goods. If the claim stood alone it might be dismissed as a mere verbal extravagance, but since he relies upon it as one of the supports for his ramshackle theories it becomes necessary to view it as part of the general scheme.

Examined from this aspect, Major Douglas' conception of money is shown to be completely erroneous and incapable of giving any support to his general theory of Social Credit.

CHAPTER XI

THE INFLATIONARY CHARACTER OF THE DOUGLAS PROPOSALS

IN the preceding chapters we have examined the arguments by which Major Douglas arrives at the conclusion that a deficiency of purchasing-power is inherent in the present system. We have finally to consider the positive proposals which he offers as a remedy for this supposed defect. They are, the issue of Consumer Credits so as to permit (1) the sale of goods at the Just Price, which would be a fraction of their financial cost, and (2) the distribution to all members of the community, irrespective of whether they have or have not made any contribution to production, of a share of the national product in the form of a National Dividend.

The method by which the first of these proposals would be put into operation is as follows. The National Credit Office would calculate the total national production and the total national consumption over a given past period, and the relation between production and consumption would determine the Just Price for the ensuing period.

Thus if $\frac{\text{Consumption}}{\text{Production}} = \frac{2}{5}$, the Just Price at which goods could be sold to consumers would be two-fifths of the actual financial cost. An article costing 20 shillings to produce would therefore be sold to the public for 8 shillings. The difference of 12 shillings would be made up to the producer by the National Credit Office, and the money required for this purpose would be provided by the creation of entirely new credit.

It is argued that producers would readily come into the arrangement because any dissenter would be forced to try to sell for 20 shillings products which his competitors, who had embraced the scheme, were selling for 8 shillings.

Consequently, no legal compulsion would be necessary. The retailers who undertook to sell their goods to the public at the Just Price would receive the balance of their costs from the State. The retailers who refused would have no financial assistance.

The procedure which Social Crediters visualise is that :

Retailers would recover the full financial cost of their goods (including their profit) partly from the public and partly from the State. They would then repay wholesalers, who would repay manufacturers, who would repay the banks the loans by which the manufacturing process was initiated. The latter would then cancel the money representing the loan, as they do at present, except that this cancellation would only take place after the goods, which the loan has brought into existence, have been consumed (i.e. bought by the public).

(The Nation's Credit, by C. G. M., page 11.)

The picture which is presented to us here depicts the National Credit Office creating new credits to enable goods to be sold, and these credits returning to the banking system for cancellation when the sales have been effected. The assumption is that the present system leaves a balance of goods unsold, except in so far as they are either exported or purchased with new money issued by the banks as debt. The issue of Consumer Credits, it is argued, would enable the whole product to be sold without the need for the present loan credits and industry would be released from an oppressive burden of debt.

It will be seen that Major Douglas' proposal relies for its justification wholly upon the correctness of his analysis. If, in respect of an article placed on the market with a price (calculated upon ordinary accounting methods) of 20 shillings, the public holds purchasing-power amounting to only 8 shillings, then the issue of a consumer credit for 12 shillings, will merely enable the article to be sold. If all money paid by consumers in prices returns to the banking system for cancellation, then, on the same hypothesis, the consumer credit, having served the purpose for which it was intended, passes out of existence.

Major Douglas postulates that production is financed

by loan credit ; that when the loans are repaid the credit goes out of existence ; that consumption goods contain in their prices both their own direct costs and also their share of capital costs ; and that loan credit is, to a very large extent, repaid and cancelled before the goods which it has brought into existence are placed on the market. In his view, therefore, a situation is created in which the greater portion of the purchasing-power distributed to the public flows back to the industrial system in payment for capital goods, raw materials and intermediate products ; is returned to the banks in repayment of loans, and is thereupon cancelled. The residue of purchasing-power left with consumers can in consequence purchase only a small fraction of the total goods, since these goods contain in their prices all costs, including those in respect of raw materials, intermediate products and capital goods.

In such circumstances, Major Douglas argues—and rightly argues if his premises be admitted—that consumer credits can be issued without producing inflation and without causing any ill effects. If purchasing-power is but a fraction of prices, it must be added to until it equals prices. If all money paid to producers goes back to the banking system and disappears through the door of cancellation, there can be no purchasing-power left over to inflate future prices. Major Douglas maintains that these two conditions do actually exist and on that hypothesis he has no difficulty in defending his proposals.

But it is precisely these preliminary assumptions which cannot be granted. The discrepancy which he visualises between total purchasing-power and total prices of consumption goods is altogether inconsistent with the facts, and the belief that all money paid back into the industrial system is on its way to extinction is equally a figment of his imagination. The proof of this is contained in the earlier chapters where we have examined in detail the grounds on which he makes his various assumptions. If the argument has been followed it will be seen that all industrial costs are established by monetary payments which become purchasing-power in the hands of consumers, and that,

so far as consumers *as a whole* are concerned, this purchasing-power is surrendered only in exchange for consumption goods.

Major Douglas' contention boils down to this—he believes that purchasing-power is taken back from consumers to meet B payments, leaving the volume of spending-power insufficient to meet the charges in respect of capital goods, raw materials and intermediate products which appear again in prices. The reality is that raw materials and intermediate products are not paid for by *consumers* until they appear in the prices of final products; that all sums collected from the public for capital investment are equated by payments made to consumers for creating the capital assets, and all sums included in prices of consumption goods on account of depreciation of buildings, machinery and equipment, are equated by the payments made to consumers for making the replacements.

Consumers are therefore all square in respect of capital costs. As investors, they surrender a certain amount of purchasing-power, but as constructors of capital assets they receive back the same amount. The position at that stage is that the cost of capital equipment has been borne by investors and it will continue to be borne by them—in the expectation of receiving a share of the product in the form of interest or dividend—until the capital goods are worn out and their cost appears in prices. Consumers as such then pay, for the first time, the cost of capital goods in the prices of goods they consume. They are able to meet these charges because industrial production is a continuous process, and at the same time that they are called upon to pay for capital goods depreciated, they are being paid for replacing other capital goods. Thus a statement of consumer income and expenditure, using token figures, would be as follows (see Table on p. 148).

So long as production remains a continuous and generally speaking an expanding process, any given period will contain its appropriate proportion of each of these items of income and expenditure. It is not necessary that consumers should hold the income actually received in

Income.		Expenditure.	
Received for constructing Capital Goods . . .	100	Invested in Capital Goods	100
Received for producing Primary Products . .	100	Paid for Consumption Goods.	
Received for processing Consumption Goods through all stages . .	100	Prices made up as follows :	
Received for replacing worn-out Capital Goods . .	100	Cost of Primary Products . .	100
		Cost of Processing	100
		Depreciation of Capital Goods .	100
			—300
	<u>400</u>		<u>400</u>

respect of the production of the goods they buy so long as they have an equivalent amount of income received in respect of production taking place in that period. In the same way it is not necessary that they should hold the money distributed in respect of the particular capital goods which are being charged into current prices, so long as they hold a similar sum distributed in respect of replacements made in the current period.

Although the prime cost of new capital goods is collected from the public as a whole in the shape of sums placed to investment, the same sums have been, or will be, distributed to the public for constructing the capital goods. Here, again, it is not necessary that the income and expenditure in a particular period should relate to the same goods, it is merely necessary that the various processes shall be sufficiently continuous to ensure that income equals expenditure in that period.

It may possibly be objected here that since the production system is continually expanding, the sum of all charges appearing in the prices of consumption goods on account of capital goods consumed will tend to be greater than the total amount distributed in the same period in respect of replacements. In other words, although in a repeating economy the payments made to consumers in respect of replacements will, in any given period, tend to equal the charges collected from consumers on account of capital goods consumed, yet in an expanding economy the increase in the latter will always precede the increase

in the former. The first charges on account of new capital goods will appear in prices before the volume of payments to consumers for making replacements has been increased in consequence of the increase in the volume of capital goods.

But though this is true it is only one side of the matter. Expansion of capital production normally follows expansion of financial credit, and notwithstanding a certain degree of credit contraction may follow, the general tendency is for the volume of credit to expand side by side with industrial expansion and to remain at a higher level than before the expansion took place. In consequence the amount of money circulating amongst consumers is increased sufficiently to meet the later increase in the volume of prices of consumption goods.

Of course, when the banks are operating a policy of deflation, and in consequence loans are being repaid and not re-issued, there will be a tendency for consumers' income to fall below the sum required to purchase the goods in the market. Production, particularly of capital goods, will be slowed down, and the distribution of purchasing-power will be reduced before the volume of goods available for consumption has been correspondingly reduced. In such circumstances a deficiency of purchasing-power would undoubtedly arise unless prices of consumption goods fell and the loss was transferred to the owners of capital. Nevertheless this is not the deficiency with which Major Douglas is concerned and it does not help him with his argument.

On the other hand, if loans are re-issued as soon as they are repaid the supply of consumer income will be maintained and will tend to balance total prices of consumption goods, while if the banks are expanding credit faster than is required to meet whatever increased production is taking place, income will tend to exceed expenditure.

It will be seen, therefore, that since there is no inherent hiatus between purchasing-power and prices, and since the money for the repayment of bank loans is not taken directly from consumers but is drawn from producers'

capital and restored to producers' capital when the loans are re-issued, Major Douglas' proposal to issue consumer credits would inflate the volume of purchasing-power beyond the sum necessary to make current purchases. Unless prices immediately rose, stocks of goods would quickly be exhausted and producers would be unable to meet demand.

Social Crediters will probably reply that production, stimulated by the increased demand, would soon meet and overtake it. But these new goods would follow the same procedure. Purchasing-power equal to their financial cost would be issued during the process of production, and the price of consumption to consumers would again, by Major Douglas' formula, be reduced to a fraction of cost. Incidentally, the increased demand for primary products, even if it could be met, would, unless rigorous control were possible, inevitably force prices into a rise.

There are only two practical alternatives if Major Douglas' Just Price proposal were adopted. Either the equivalent of the consumer credits would accumulate as useless money in consumers' hands, or the credits would be absorbed in rising prices; the latter, of course, being much the more probable. There is really no escape from this position, given the fact that purchasing-power equal to their full financial cost is distributed during the process of production and marketing of all consumption goods.

If the Just Price of goods costing 20 shillings to produce was fixed at 8 shillings, consumers as a whole, having received 20 shillings for producing them, would still be left with 12 shillings after having acquired and consumed them. This 12 shillings could never be absorbed except by an increase in prices, because so long as the Just Price remained in operation every article sold to consumers would leave them in possession of a further surplus equal to the amount of the price reduction on that article. Major Douglas denies that prices would rise. He assumes that no unnecessary accumulation of money would take place, and relies upon the entirely erroneous belief that all money returned to the industrial system in prices is on its way

to the banks for cancellation. This view of money as a stream originated by the banking system and flowing out to consumers and back to extinction in the banks, explains much that might otherwise be obscure in Major Douglas' reasoning. It explains why he insists so strongly that money is merely a ticket and it helps to an understanding of his contention that the repayment and cancellation of loans—before the goods produced by their instrumentality have been marketed—is a proof of deficiency. When he proposes to wipe out this deficiency by re-issuing the prematurely cancelled money he assumes that the new issue will in its turn be automatically cancelled, but in this case at the proper time, that is, after the goods have been sold to consumers.

A great deal of discussion upon the subject of cancellation has been carried on in the correspondence columns of Social Credit journals, and its result has been to demonstrate that all Social Crediters do not share their leader's confidence. Indeed, upon this particular question the Movement is in hopeless confusion. There are those who, with Major Douglas, pin their faith to a belief in automatic cancellation. Others hold the view that measures to ensure the retiral of consumer credits would be necessary, but believe that Major Douglas is in possession of knowledge which would enable him to achieve such a result without taxation or confiscation. Yet another group of supporters, with a nearer approach to reality, realise that recourse must be had to taxation in order to cancel money and prevent inflation, although they do not appreciate the full extent of the taxation which would become necessary.

In the face of this conflict of opinion amongst his followers Major Douglas has maintained a discrete reserve. Nowhere in his writings or his speeches does he offer any real elucidation of the problem, and it can only be assumed that he has never contemplated the possibility that the process is not automatic. Believing that the stream of money flows back from consumers to the banking system and that the banks can, and do, destroy this money without disturbing the rights of depositors, he does not recognise the existence of

a cancellation problem. He appears not to realise that money issued to consumers as a gift is in a totally different category from money loaned by banks to borrowers ; that whilst the latter may be cancelled on repayment, the former cannot be retired without confiscation. A letter which he contributed to the *New English Weekly* in the summer of 1935, during the course of a rather acrimonious correspondence, is worth quoting in this connection :

May I revive the flagging fury of the cancellationists and, at the same time, express my personal gratitude to Messrs. Northridge, Gordon-Cummings and Allen-Young, in particular ? I know the answer or answers, which present no special technical difficulties, and do not involve taxation (which I hope to live to see abolished as a gross infringement of the liberty of the subject), but I do not see, however, any special object in handing over the information to the opposition.

In the meantime the following questions might be worth consideration :

(1) Has anyone ever complained that the L.M.S. Railway prints too many tickets ?

(2) If not, why not ?

(3) Are they cancelled on return ?

(4) If so, why is a bank-note allowed to be used twice ?

(5) Would the monopoly of credit be of more than temporary value if the bankers did not possess the power of cancellation ?

If anyone wishes to say that the answer to all of these questions is " because the higher it gets, the fewer," I shall not object.

The suggestion that he could, if he so desired, provide the answer, or answers, but prefers to remain mysterious and inscrutable is, if not intentionally evasive, certainly naïve.

As to the questions which he propounds, they convict him either of treating a matter vital to his principles with foolish flippancy, or of failing to understand it. A railway ticket is an acknowledgement of payment for a specific service just as is a theatre or a concert ticket. A bank-note can be used an indefinite number of times because it is a legalised *medium of exchange*. A railway ticket has no value except as evidence that the railway

company has undertaken to perform a particular service. When that service is completed it ceases to have any authority. A bank-note is an acknowledgement of a debt by the bank to the holder of the note, and it is also a negotiable instrument.

Visualise, for example, an imaginary State in which railway tickets were given the status of legal money. They would at once take on a new character and would no longer be cancelled when surrendered to the railway company upon completion of a journey. For consider the position. The tickets having the status of money could be used to discharge any debt. They might be used to pay the butcher or the baker and the railway company could use them to pay the wages of its employees. Obviously, in such a hypothetical case, the company could not be allowed to retain the right to print an unlimited number of tickets. The State would have to control their printing and issue, and when they came into the hands of the railway company they would represent money which might be used to meet out-payments, or could be paid by the company into its banking account.

Major Douglas asks, why should a bank-note be used more than once when a railway ticket is cancelled after a single transaction? The answer is that a bank-note is money but a railway ticket is not. The company receives money in payment for its services and gives a ticket as a form of receipt. When the transaction is completed it destroys the ticket, but it does not destroy the money it has received in payment because, like every other holder of money, it only surrenders it for value given in exchange. It is true the money may be paid into the bank, but only for safe custody and not for cancellation. At a later date it will be required for the purpose of making disbursements, and the bank will be under an obligation to hand back the same amount.

If Major Douglas is really unable to appreciate the fundamental difference between a railway ticket and a unit of legal currency, and cannot see that the former is merely waste paper after the journey for which it was issued has been

completed, while the latter—because it is money—remains a store of value however many times it changes hands, it is no wonder his economic theories are often startlingly original.

Social Credit propagandists sometimes appear anxious to modify the Just Price proposal and suggest a comparatively low percentage reduction at least as a commencement. Mr. Marshall Hattersley in his recent book *Wealth, Want and War* proposes a price discount of 25 per cent. On page 228 he says :

It is quite impossible to foretell the actual figures that would be recommended, but as a commencement it is not improbable that some reasonably small national dividend would be paid, accompanied by a price-factor in the region of three-quarters—equivalent to a price-discount of 25 per cent.

At the same time he adds a footnote pointing out that the "Goldsborough Bill" before the American Congress provides for an initial discount of 15 per cent.

There is a curious illogicality about such suggestions for an arbitrary discount percentage, since the Just Price formula provides a method of determining mathematically the amount of the discount. If Major Douglas' premises be admitted, his proposal is the perfectly logical one of calculating the disparity between consumption and production and applying the resulting fraction in reduction of prices. If he is correct in his contention that such a disparity exists; if it be true that it is traceable to an inherent fault in the pricing system and that its measure is the volume of all "B" payments, then it is quite clear that the correct price discount is a percentage arrived at by calculating the extent of the resulting gap between consumption and production—no more and no less. There is no need to propose a figure either for permanent application or as a commencement. The Just Price formula provides the means of ascertaining the correct percentage and if Major Douglas' premises are correct that percentage will certainly exceed 15 or 25 per cent.

The presumption which we made at the commencement

of this chapter of a price discount of 60 per cent, based on the proposition $\frac{\text{Consumption}}{\text{Production}} = \frac{2}{5}$, was taken from the pamphlet *The Nation's Credit* by C. G. M., from which we have already quoted. This pamphlet is a Social Credit production written in explanation of Major Douglas' proposals and the suggested proportions are a reasonable deduction from his basic assumptions. The suggestion of a price reduction of 25 per cent or less may be viewed as a cautious proposal or it may appear to indicate a certain amount of distrust of Major Douglas' reasoning and a disinclination to accept his conclusions in their entirety. In any case, whatever the percentage, the objection to it is in principle the same, and since the hypothesis on which it is based is entirely erroneous its modification does not make it less objectionable but merely suggests a lack of conviction in the minds of its advocates.

The question concerning the magnitude of the price reduction which Major Douglas has in mind becomes important, however, when we come to consider the method he adopts in making his calculation. There is, of course, in any expanding industrial system, a certain excess of production over total consumption occasioned by the fact that the production of new capital goods tends to exceed the rate of depreciation of existing capital assets. This increase in productive capacity will ultimately lead to an increase in the volume of consumption goods, but a considerable time may elapse before the additional goods actually come into the market. When they do appear there may be an expansion of currency sufficient to absorb them at existing prices or failing this the price level will tend to fall.

But at the point where only the additional capital goods have come into existence there is no justification for lowering the prices of consumption goods already in the market below their cost of production, in anticipation of an increase in the supply of final products which may not materialise until some time later. If Major Douglas' formula included the figures of production and consumption

of *end products only* it would, if an increase were disclosed, correctly indicate the percentage by which the price level of those goods might fall, assuming—and it is of course a big assumption—that the amount of money in circulation had not, in the meantime, been increased.

Many Social Crediters appear to believe that Major Douglas is merely concerned with the expansion of productive capacity, and even if this were the case the formula as it stands would be inherently unsound because it includes capital goods and its effect would therefore be to apply a price discount before the conditions which might warrant it had eventuated. But what is of much greater importance is that the increase which, from time to time, takes place in the national stock, measured by the excess of appreciation over depreciation, is a comparatively small matter and never approaches the stupendous proportions of the surplus which Major Douglas visualises. The truth is that he is never greatly concerned with this normal expansion. He believes he is on the track of a far greater surplus, the measure of which is the sum of all "B" payments. It is to the conception of a gap between purchasing-power and prices of such magnitude that the former is only a fraction of the latter, that we must look for a correct understanding of the Just Price formula.

Even with a price discount of 25 per cent applied to all retail sales, assuming these to be roughly in the region of £4,000 millions per annum, about £1,000 millions of new money would be issued to consumers in the first year. At the present time the total amount standing in the current accounts of depositors with the English banks is a little over £1,000 millions, and when it is remembered that possibly less than half this sum is responsible for effecting all retail sales it will be seen that the proposal for a 25 per cent price reduction might treble the money available for retail sales in a single year.

But a 25 per cent reduction is merely offered by Social Crediters as a tentative figure and Major Douglas has a much larger percentage in mind as the product of his formula. Listen to what he says in *Warning Democracy*, page 107 :

I have, of course, used the figure of 25 per cent for purposes of illustration but I may say that in 1919 I conducted a somewhat elaborate investigation into this matter, and I arrived at the conclusion that the true discount to the consumer was very much nearer 90 per cent than 25 per cent to obtain the results which I have just been outlining.

Now the significance of this statement lies in the fact that the total payments which Major Douglas describes as " B " payments and those which he designates " A " payments have been reliably estimated to be in the proportions of 90 per cent and 10 per cent, and it is clear therefore that he makes his calculations in such a way that it appears to support his basic contention that available purchasing-power is only a fraction of total prices and that the measure of the difference between them is the sum of all " B " payments. If Major Douglas' A + B theorem was a correct reflection of the facts consumers might be expected to have only about 10 per cent of the purchasing-power necessary to purchase all the goods produced and the price reduction formula might therefore stand

$$\frac{\text{Consumption}}{\text{Production}} = \frac{1}{10}$$

yielding a price discount of 90 per cent.

But we have already demonstrated that the A + B theorem has no basis in fact, and it is surely obvious to everyone that no realistic comparison of total consumption with total production could possibly produce the result, 1 : 10. How then does Major Douglas arrive at a result which purports to show that in a given period production is ten times the volume of consumption? There is, we believe, only one satisfactory answer to this question and it is that his figure of total Production is grossly in excess of the real figure.

We believe the fallacy in the Just Price formula to be that it includes in the figure for total Production the cost of capital goods, raw materials and semi-manufactures, not once but several times.

By adding to the final prices of all consumption goods completed during the period, the cost of all raw materials, semi-manufactures and capital goods produced in the same period, he arrives at a total which includes, in addition to the real production costs, the cost of capital goods, intermediate products and raw materials *consumed* during the period.

If, on the other hand, he were to take, as the figure of total production, the cost of all primary products brought into the period plus the labour costs added to all goods processed during the same period, whether capital goods, intermediate products, or consumption goods, he would arrive at a total which, except for the margin of appreciation already referred to, would be approximately equal to the total cost of all consumption goods completed during the period. Because his total includes the full cost of all capital goods, raw materials, semi-manufactures and consumption goods brought into the period, it must also include capital goods, raw materials and semi-manufactures produced in earlier periods and now appearing in prices because they have been *consumed*, and in consequence his Just Price is bound to be an entirely erroneous deduction.

For a controversialist who treats all orthodox economists with contemptuous disdain, and has such supreme confidence in his own reasoning and deductive powers as to dignify his theories with the title *The New Economics*, Major Douglas makes some extraordinary mistakes. The implied object of his formula is to ascertain by how much the additions to the material stock have exceeded the wastage in a given period. In such a calculation it is essential that the figure for total production should correctly represent the contribution actually made during the period, and should include nothing contributed by an earlier period.

Yet the method adopted in calculating what he euphemistically describes as the "Just Price" is to include in the figure of total production, all raw materials produced; all capital goods constructed including the cost of materials brought in from an earlier period; all semi-manufactures at their full cost including the cost of materials produced

in an earlier period, and all final products at their full cost, including the value of raw materials, semi-manufactures and depreciated plant and machinery produced in earlier periods. Only by such a method is it possible to show the huge disparity between Consumption and Production which he professes to disclose and which forms the basis for his price reduction factor. Yet to suggest that such a total bears any relation whatever to the real contribution made to production during the period is to display either a complete disregard for the facts or an incompetence so astonishing as to destroy any claim he might have had to be accepted as a serious economist.

The mistake is so glaring that the reader may be excused for doubting whether we have correctly interpreted Major Douglas' meaning. Even a tyro can see that a calculation made in this way would include the cost of raw materials, semi-manufactures, buildings and machinery, which would again be included in a later calculation as part of the prices of consumption goods. If a baker made up each day a quantity of dough which he priced at £5 and also converted a similar quantity of dough prepared the previous day into bread priced at £10, including the cost of the dough, Major Douglas would, according to his reasoning, say that the total daily production was £15 worth of goods—£5 worth of dough and £10 worth of bread. Yet if the baker introduced this assumption into his book-keeping his accounts would appear to show him making a loss of £5 per day.

There is really no escape, however, from the conclusion that Major Douglas falls into this error. It completely squares with his belief in a huge gap between production and consumption and it fits accurately into his conception of "B" payments piling up claims against the public which consumers cannot meet. It will be remembered that he says "a proportion of the product at least equivalent to 'B' must be distributed by a form of purchasing-power which is not comprised in the descriptions grouped under 'A'."

But if any doubt remains as to his meaning, the question

is decided by the formula which he provides in *Credit Power and Democracy*, page 150 :

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

The *money value* of total production is clearly the sum of the prices of all goods produced including raw materials, semi-manufactures, capital goods and final products, and this total has no relation to the real increment added by all industrial processes during the period. But it produces the result which Major Douglas claims to have obtained and by no other method can he achieve such a result.

This miscalculation of the volume of production underlies and invalidates all the argument regarding the "Just Price." His often-repeated phrase "the cost of production is consumption," becomes meaningless if the real figure of production is brought into the comparison. In a repeating economy real production would merely balance consumption, and even allowing for the appreciation which takes place in an expanding economy there is no such wide discrepancy as Major Douglas' incorrect comparison purports to disclose.

The second of the two proposals—the distribution to all members of the community of a share of the national product in the form of a dividend—fails for exactly the same reasons. The source from which he proposes to derive the dividends is the same source from whence he hopes to draw Consumer Credits. Both are methods of filling a gap between purchasing-power and prices, believed to exist in consequence of the premature cancellation of loan credits by the banks ; both depend, for their justification, upon the correctness of his analysis ; both fail completely because the analysis is based on entirely false assumptions.

Many of the propositions put forward by Major Douglas are so monstrously absurd that only his obscure phraseology and the frequent ambiguity concerning his meaning have saved them from instant rejection. The proposal for the issue of National Dividends reached what was perhaps its peak of absurdity in his "Scheme for Scotland." This

scheme envisages a dividend payment of £75 per annum per head of the population, or £300 per annum per family.

The present population of Scotland is approximately 4,800,000, so that the scheme involves an annual payment out of the credit resources of Scotland of £360,000,000 in dividends alone, or considerably more than the total bank deposits of that country. When it is remembered that he has no intention of interfering with the payment of normal interest and dividends on capital, each issue of National Dividends being provided by a creation of entirely new credit, and that he contemplates in addition a substantial price reduction factor involving the issue of further vast sums of new money to finance consumer credits, it will be seen that his "Scheme for Scotland" is really a policy of colossal inflation.

In an attempt to present some appearance of justification for a proposal involving the issue of annual dividend payments on a scale that the total resources of Scotland could not possibly support, he adds the crowning absurdity of proposing a calculation of capital assets which would include "the commercial capitalised value of the population."

There are, of course, cases where it is necessary to calculate the commercial value of an individual's expectation of life. For example, where compensation is to be awarded for injury or loss of life. The essence of such calculations is that they are a computation of the sum which the individual might be expected to acquire, during a normal lifetime, as his share of the physical assets and the productive capacity of the community. They are in short an estimate of future *income* and only become capital in the sense that they are a *commutation* of future income.

If, for example, we could imagine an insurance company undertaking such business, we might suppose a man approaching the company with a proposal to capitalise his earning capacity. If he was capable of earning an income of £200 a year, the company might assess the value of his life according to their expectation tables at say £3,000. Now the whole point of such a transaction, if carried through, would be that the man had disposed of

all future rights in his earning capacity and the insurance company would have acquired those rights. He would have obtained the capital sum of £3,000 by the sale of his earning capacity. The insurance company would have purchased for £3,000 the right to collect his future earnings.

This is the only sense in which an individual can be considered to have a commercial capitalised value. If his future income can be estimated, it may be assessed at a capital sum, but capital sum or distributed income are simply two ways of expressing the same thing. Major Douglas commits the extraordinary folly of adding the two together. Having calculated the capitalised value of an existing or presumed income, he proposes to re-calculate the annual yield of this sum in order to add it to the income from which the calculation was derived. It is as though a firm having a capital of £100,000 and employing 1,000 men, were to estimate the capitalised value of its workmen at £1,000 per head and write up its capital to £200,000 in the hope that it might be able thereby to double its distribution of wages and profits.

Language is at times a very inadequate vehicle, and there are occasions when it is impossible to do justice to Major Douglas' excursions into the "new economics." We cannot do better therefore than terminate our examination of his proposals at this point and leave the reader to ponder on this characteristic example of his reasoning.

EPILOGUE

THE strength of the appeal which Major Douglas makes to his followers is that his theories promise something for nothing. Consumers are to receive credits ; dividends are to be issued to all ; taxation will become unnecessary and no one will be called upon to pay the cost.

It is inevitable that those who eagerly embrace this doctrine should look to its author to seize the earliest opportunity of carrying his promises to fulfilment. When Alberta startled the world by returning to its legislature a Social Credit majority under the leadership of Mr. Aberhart, Social Credit enthusiasts in all countries awaited with eager expectancy an early demonstration of the truth of their beliefs. Major Douglas had already been briefed as Economic Adviser to the Albertan executive and the stage seemed set for great events when Mr. Aberhart cabled his message, " Victorious, when could you come ? "

But at this moment of destiny, difficulties intervened. Major Douglas took the view that subsequent commitments entered into by the Albertan Government prejudiced the situation and made it necessary that he should relinquish his post as Economic Adviser. Mr. Aberhart insisted that although steps had to be taken to clear up the financial situation which he had inherited, nothing had been done to hinder the introduction of Social Credit, and he appealed to its chief exponent for a constructive plan.

Relations between Major Douglas and the Albertan Government became increasingly strained ; the former openly criticising the ability and the methods of Mr. Aberhart, and the latter—through its organ *The Albertan*—roundly accusing Major Douglas of leaving them in the lurch. Many Individual Social Crediters in this country doubted the wisdom of their leader's attitude and

viewed with dismay the widening breach. They were inclined to ask themselves why Major Douglas had been prepared to go out to Alberta in the capacity of Economic Adviser to the previous orthodox administration, and yet felt constrained to sever his connection with one elected on a popular mandate for Social Credit.

They reasoned that his original acceptance of the post took place under conditions which made it of little value except for propaganda purposes. The administration which he undertook to advise was wedded to orthodox finance, and he could not hope to do more than impress a wider public with his readiness to propose practical and constructive Social Credit measures. But with the election of a Social Credit majority to the Albertan legislature the situation was wholly changed. Instead of being merely an opportunity for propaganda it became an opportunity for positive achievement. Even although the new government stumbled and faltered in its first untutored steps, surely his arrival on the scene could quickly rectify those mistakes and plant its feet firmly on the right path.

The rank and file Social Crediter could not help but feel that if it was worth Major Douglas' while to accept the relatively unprofitable task of attempting to convince the previous administration, it was much more worth while that he should apply his energies to the task of instructing and if necessary convincing a government already committed in principle to his views.

Reading between the lines of the statements made on both sides, it appears that what Major Douglas demanded was a virtual dictatorship exercised by himself, but with the responsibility for his actions falling on the elected government of Alberta. Mr. Aberhart and his colleagues, on the other hand, pointed out that as a democratic government they must first consider and approve any measures before they could be taken on their responsibility and with their authority. Their view was that Major Douglas, acting as their technical adviser, should recommend a practical scheme; they, as the executive, would be prepared to consider it and, if approved, put it into operation. What

they asked for—even pleaded for—was a plan. Major Douglas offered them, instead, his advice on strategy.

Into this very difficult situation, Mr. John Hargrave, leader of the Social Credit organisation formerly known as the “Greenshirts,” threw an additional complication by going out to Alberta on his own responsibility with the natural result that his advice was sought by the Government. The London Social Credit Secretariat, whilst clearly resenting the “intrusion” of Mr. Hargrave, realised that something must be done to restore their own authority as head of the Movement, and they decided to send out two members of the Secretariat, Mr. G. F. Powell and Mr. L. D. Byrne, as the official representatives of Major Douglas.

This was undoubtedly intended as a counterblast to Mr. Hargrave’s action and *The New Age* in its issue of June 10th, 1937, plainly stated: “The ostensible object of Mr. Powell’s visit is to enquire into the situation: but really it is to counteract the effects of John Hargrave’s visit.” However, the die was now cast, and Major Douglas, in the person of his accredited technicians, was at last actively directing the policy of the Albertan Government. Hopes ran high and optimism once more prevailed.

Speaking at Edmonton on July 10th, 1937, Mr. L. D. Byrne said: “In asking for twenty-five dollars a month with a lower living cost, you have asked for the goods and services which the dividend will secure for you.”

In *Social Credit* of August 6th, 1937, was published a message from a correspondent in the Province, which contained the following passage:

Both Mr. Powell and Mr. Byrne have recently visited Calgary, where they were at pains to contact Social Crediters, both those affiliated with the League, and those of the Douglas Social Credit School, who unfortunately were for a time more or less at variance with the followers of Mr. Aberhart. It is gratifying to learn that since the Government has availed itself of the services of Major Douglas, these pioneers of the Movement are now indicating a definite change of attitude and a willingness to co-operate.

The huge Social Credit picnic recently held at the Edmonton Exhibition grounds was another occasion when our technicians

had an excellent opportunity of meeting with and speaking to the people. Both were quite definite and positive in assuring their audience that the promised dividend, together with a "lower price to live," is an achievable objective, given the support of public demand.

Meanwhile *The New Age* was maintaining its loyalty to the principles of Social Credit rather more strongly than its loyalty to individuals however highly placed in the Movement; it was, in fact, firmly pinning Major Douglas down to his statements regarding the possibilities of an early demonstration of Social Credit in practice and urging the desirability of a first issue of National Dividends by Christmas 1937. In its issue of September 9th, 1937, taking as its text the statement made by Major Douglas in an interview reported in *The News Chronicle* of April 2nd, 1937—"I have not the slightest doubt that a dividend of twenty-five dollars a month could have been paid to every citizen of Alberta within two months of Aberhart's election."—*The New Age* drew the inference that what was possible in August, 1935, is possible now. The following quotations from the article are illuminating as showing the pressure which is being placed on Major Douglas by some sections of the Movement to induce him to bring his principles to the test of actual experiment.

What chance is there of the early payment of a Dividend in Alberta? It is heartening to know that, in Major Douglas' opinion, two months would have sufficed for the Alberta Government to take, and to exercise, the power to pay the Dividend, and to the full amount promised, if they had begun their attempt to do so immediately after the election in August, 1935. It is heartening for this reason, that it disposes of the suggestion that the physical resources and capital equipment of Alberta would have to be exploited and developed over a period of years before Dividends could be paid. The statement virtually affirmed that Dividends could have commenced at the same time as economic development commenced; in other words, that Alberta's resources, even in their then undeveloped state, were sufficient to ensure the convertibility of the twenty-five dollars a month into additional goods and services. Inasmuch as that was a fact in August, 1935, it is a fact in September, 1937. Whatever has

happened during the two years' delay, certainly Alberta's physical resources remain what they were.

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Accordingly one is entitled to suppose that since the Dividend could have been paid within two months in 1935 it can now be paid within some period of that order—say, by early next year. The slogan *Dividends by Christmas* would not seem unreasonably optimistic. Major Douglas, it is true, raised for the first time, last May, the question of "safeguarding the interests" of Social Credit Movements outside Alberta, but whatever those interests may be to-day so they were in 1935; and in any case we cannot conceive how they could be subserved by a postponement of the Dividend-payment. If Alberta, with a ninety per cent majority of declared Social Crediters in the Legislative Assembly, all under the direction of Major Douglas, cannot take a long lead of the comparatively impotent movements elsewhere, but must wait for them to catch up, then it would seem that Mr. Aberhart's delays up to the end of last year did not particularly matter one way or the other. It is obvious that those movements would not have been able even to begin to catch up with Alberta during two months in 1935; so the conclusion is inescapable that their particular "interests" would not, in Major Douglas' opinion, have been any obstacle to Alberta's achievement of success in that year.

* * * * *

It is an unfortunate circumstance that Major Douglas appears to have discovered these difficulties after it had become certain that Alberta intended to place the responsibility for producing results on him, and him alone. And it is another unfortunate circumstance that at this juncture he should deliver a belated attack on Hargrave, who, to the knowledge of the whole world, engineered the revolt which forced the Government to give him that responsibility. Will this not mislead people into wondering whether Major Douglas had been unwilling to accept this responsibility—an impression which will be deepened by Major Douglas' use of the word "intrusion"? For obviously anything done by Hargrave that caused Major Douglas to do what he did not want to do, or to do it more quickly than he wanted, would be an "intrusion."

* * * * *

However, any misunderstanding of this sort can be forestalled if Major Douglas will publish an estimate of the time which he requires to deliver the Dividend in Alberta. We cannot believe that what was feasible in a few months in 1935 is not feasible in a few months in 1937.

If this is not a clear indication that the writer in *The New Age* has more than a half suspicion that Major Douglas has no stomach for the task which Alberta has imposed upon him ; if its purpose is not to convey unmistakably that the rank and file will not tolerate any shirking by Major Douglas of the issues raised on his responsibility ; if it is not a plain intimation that he is expected to " deliver the goods," we are greatly mistaken in its meaning.

For nearly twenty years the author of Social Credit has asked for nothing better than the opportunity to produce results, and it would be strange if he had not inspired in his followers an expectancy which would brook no excuses. The political success which, in August, 1935, placed Mr. Aberhart in charge of affairs in Alberta raised hopes and expectations which were doomed to disappointment. When, after months of waiting, dividends were as far off as ever, and when, on pretexts which even to many of his own followers seemed unconvincing, Major Douglas stayed away from the one theatre in all the world where his principles had a chance of being put to the test, disillusion began to settle like a blight on Alberta.

Mr. Aberhart had dramatised Social Credit, and had added a religious fervour and a prophetic vision to the bare formalism of Major Douglas' creed. His enthusiasm had made the dry bones live, but he could not control or direct the living organism which he had raised.

He was placed in office on a specific mandate. He had promised dividends for all and a lower subsistence cost, and if he could not produce these results, the same people who had raised him to power would fling him from office. Success was the very breath of his nostrils ; failure meant political ruin.

But Mr. Aberhart is not an expert on economic matters. His enthusiasm for Social Credit was born of emotion rather than reason, and when he found himself faced with the task of redeeming his pledges, and Major Douglas remained discreetly at home, it began to appear possible that he had breathed the breath of life into a Frankenstein monster instead of an angel of light. When Mr. Hargrave visited

Alberta in 1936, enthusiasm was at a low ebb and disunity was rife amongst Mr. Aberhart's supporters.

The arrival of the two representatives of the Secretariat restored a measure of confidence. Government supporters were in a mood of self-abnegation. They had perhaps presumed too far in relying on their own limited technical knowledge. The job was one for experts—for the acknowledged technicians of the Movement. Their own part was to provide the impulse; its use and direction was a task better suited to the genius of Major Douglas and his trusted representatives—men who had given years of study to the technical problems involved, and who knew the answers to every question that was likely to arise.

With as much optimism as had survived two years of fruitless waiting, those citizens of Alberta who had embraced Social Credit extended the simple faith which they had reposed in Major Douglas, to his two lieutenants. They told themselves that the days of indecision and delay were over; Major Douglas was at the helm and his two trusted representatives were on the spot to carry out his instructions. The objectives for which they had voted Mr. Aberhart into power were accepted and reaffirmed by the technicians sent out armed with the authority and the prestige of their leader. Dividends for all, with a lower cost of living, would soon become an accomplished fact.

The road to the economic emancipation of the world lay through Alberta. Their Province would become a new Mecca toward which in future the eyes of all people would be turned in gratitude and admiration. The greatest trail in the history of the world—the trail which led out of economic and financial bondage—had been blazed through their valleys and homesteads, and future generations would pay homage to the pioneers of Edmonton and Calgary.

The first task of the experts had been achieved. Confidence had been restored; but it was a confidence which waited expectantly on fulfilment.

Those who take a realistic view of Social Credit and the claims of its founder, await the result without optimism but with a real concern for the people of Alberta. Whatever

steps are ultimately taken at the instigation of Major Douglas, Albertans will be the sufferers. Whether a positive attempt is made to put Social Credit into operation, or whether the attempt is abandoned, disillusion and disappointment await them.

That certain Albertan legislation has been vetoed cannot be accepted as a complete explanation of failure. Legislative difficulties must have been foreseen and Major Douglas' inability to overcome them is inevitable in view of the technical unsoundness of his proposals.

With widely different sentiments, friends and critics of Major Douglas, in all parts of the world, watch the progress of events in Alberta. In the eyes of the former it is the golden opportunity for which they have worked and waited ; in the eyes of the latter it is the crowning folly of a mis-directed zeal. Whatever doubts may exist as to how events will finally shape themselves, one thing may be said with certainty. Major Douglas must now put his principles to the test, or in default suffer a great loss of prestige in the eyes of his followers.

His writings and his propaganda led him irrevocably to this point. His followers, inspired by his promises, have worked and waited for an opportunity of proof—for just such an opportunity as has now arrived.

Social Crediters stand face to face with the situation which they have sought. They followed the star which was to lead them to the consummation of their hopes—

And They Came Unto ALBERTA.

INDEX

- Aberhart, Mr., 8, 163-9
 Adamson diagram, 31
 Alberta, 6, 163-70
 Allen-Young, Mr., 152
 Ashridge address, 102
 A + B theorem, 14, 15-50, 61-3,
 69-71, 73-86, 157
 Bank clearings, 64-8
 deposits, 53, 64, 66, 71, 93, 94,
 101, 104-19, 127, 140, 156
Banking and Industry, 30
 Bank interest, 52
 loans, issue of, 53, 72, 83, 92-8,
 106, 116, 118, 122, 123,
 142
 — repayment of, 36, 60, 83,
 87-91, 95-98, 108, 109,
 113, 114, 118, 119, 126-8,
 142, 145, 146, 149, 151
 — security for, 106, 109, 122
 overdrafts, 83, 92, 143
 Banks, cash basis of, 53, 71, 72,
 104-6, 108, 111, 140, 141
 purchase of securities by, 72,
 114
 sale of securities by, 71, 72
 Barclay-Smith, Mr., 102
 Bardsley, Mr. W. L., 10
 Barter economy, 135
 "B" costs merely transferred,
 19, 20, 29, 32-4, 42, 43, 74,
 75, 79
 Belfast speech, 101
 Buxton speech, 12
 Byrne, Mr. L. D., 10, 165
 Calgary, 165, 169
 Cancellation of money, 71, 89-92,
 94, 95, 98, 99, 108, 110, 113,
 118, 127, 129, 134, 142, 145,
 146, 151, 152, 160
 Capital accumulation, 53, 60,
 80-2, 102, 116, 122, 124,
 128-33, 149
 assets, consumers' liability for,
 57-60, 91, 122-32, 147
 — wastage of, 57, 58, 98, 127,
 131, 147, 155
 function of, 47, 61, 96-8, 121-
 133
 ownership, 39, 46, 47, 57, 60,
 61, 81, 82, 126-8, 131, 132,
 137, 138
 production, 46, 47, 55-9, 126,
 147, 155
 Central Bank, 71, 72, 83, 104,
 111, 115
 C. G. M., 145, 155
 Cole, Mr. G. D. H., 1, 4
 Consumer credits, 12, 14, 50, 91,
 144-6, 150, 151, 160
 income and expenditure, 147,
 148
 Copland, Professor, 16, 40-2, 49,
 139
 Credit, beneficial ownership of,
 92, 93, 99-102, 108, 110-20,
 129
 creation by banks, 93, 94, 99-
 106, 110, 111, 114-20
Credit Power and Democracy, 17,
 27, 37, 38, 73, 122, 160
 Dalton, Dr. Hugh, 1
 Davies, Mr. Rhys, 1
 Debt, Public, 92-4
 rise of, 77, 85-99, 104, 112,
 121-3
 Deficiency of purchasing-power,
 13, 14, 16, 18, 21, 22, 25, 30,
 36, 37, 44, 48, 50-72, 75-87,
 91, 95, 98, 104, 113, 121, 122,
 141, 144-9, 151, 154, 156-60

- Deflation, 48, 53, 71, 72, 83, 98, 149
 Depreciation charges, 43, 46, 47, 58-61, 147
 Diagram, Adamson, 31
 showing transfer of costs, 34
 illustrating production by stages, 80
 Difference of circuit velocity, 48, 61, 63-6
 Douglas formula, revised, 23
Douglas Manual, 18
 Economic Adviser, Major Douglas as, 163, 164
Economic Democracy, 57
 Economic experts, *New Age* on, 3
 system in ceaseless motion, 27, 76
 Economist, Major Douglas not, 3, 159
 Economists, deficiency they recognise, 14, 72
 Major Douglas' views on, 1, 40, 90, 158
 Social Crediters' attacks on, 5, 7
 Edmonton, 165, 169
 Electoral Campaign, 10-12
 Elusive character of Douglas propaganda, 4, 5
 Employment a fetish, 136
 Experts' rejection of Social Credit, 7, 9, 12, 86
Fig Tree, 73
 Frankenstein Monster, 168
 Gaitskell, Mr. Hugh, 4
 Golder, M. J., 2
 Goldsborough Bill, 154
 Gordon-Cummings, Mr., 152
 Great War, 92, 93
 Greenshirts, 2, 165
 Greenwood, Mr. Arthur, 1
 H. A. C., 2
 Hargrave, Mr. John, 2, 165, 167, 168
 Hattersley, Mr. Marshall, 8, 154
 Hawtrey, Mr., 101, 102, 114
 Hayek, Professor, 7
 H. M. M., 34-6
 Hoarding, 53, 54
 Hobson, Mr. J. A., 1, 64
 Hodges, Mr. Frank, 1
 Industrial costs, accumulation of, 39
 Inflation, 56, 72, 115, 119, 146, 151
 Inflationary effect of proposals, 14, 49, 56, 144-62
 Interest, 51, 52, 91-3, 147
 Intolerance of Social Credit Movement, 1
 Investment, 46-8, 53-5, 59-61, 92, 93, 96, 127, 128, 147
 Joint Stock Banks, 64, 104, 140
 Joseph, Mr. A. W., 30-3, 44, 59
 Just Price, 49, 144, 145, 150, 154, 156-8, 160
 Kibbo Kift, 2
 Labour Party, 1
 Legal compulsion unnecessary, 145
 Loan capital, premature retirement of, 24-6, 146, 151, 160
 Macmillan Committee, 5, 9
 Maintenance of capital, 47, 57, 58, 60, 61, 123-8, 132
 Mairer, Mr. Philip, 18
 Managed currency, 13, 14
 Money a medium of exchange, 134-8, 141-3, 152
 a store of value, 138, 139, 141, 153, 154
 a ticket, 134, 135, 138, 141, 143, 151, 153
 on its way to the bank, 48, 69, 127, 134, 142, 145, 146, 151
Monopoly of Credit, 63-5, 74, 87, 101
 National Credit Office, 144, 145
 Dividends, 10-12, 14, 129, 144, 154, 160, 161, 166-9
Nation's Credit, 145, 155
New Age, 1-3, 12, 16, 30, 51, 53, 100, 101, 165-8

- New and the Old Economics*, 16,
18, 21, 40, 54, 59, 62, 73, 125,
139
New Economics, 1-14, 90, 158,
162
New English Weekly, 9, 12, 18,
53, 152
New Era (Australia), 102
News Chronicle, 166
New Statesman and Nation, 63
New Zealand Monetary Com-
mittee, 9
Northridge, Mr. R. L., 73, 74,
77-9, 81-4, 152

Obsolescence, 57, 58
Orage, Mr. A. R., 9
Oslo speech, 85, 87, 134
Outline of Social Credit, 34

Passmore, Lord, 1
Pool of wealth, 135-8
Population, capitalised value of,
161, 162
Poverty, abolition of, 11
Powell, Mr. G. F., 165
Price Factor, 49, 50, 154-61
Prices, fall in, 155, 156
rise in, 56, 150
Private ownership, 39, 46, 102,
116, 117, 131-3, 136, 137
Profits, 48, 51, 52, 58-60, 91, 92,
139, 140
Proof, obligation of, 4
Purchasing-power, advance dis-
tribution of, 79, 80

Rate of flow, 18-22, 27-30, 38,
39, 62, 77, 84
Rautenstrauch, Professor, 86
Redeemable stock, 60
Replacement, 57-9, 61, 128, 147
Reserves, use of, 58, 60
Retail sales, 156
Robbins, Professor Lionel, 16,
40, 125

Sabotage, 40
Savings, 48, 53, 55, 56, 59, 69
Scheme for Scotland, 117, 160, 161
Scotland, population of, 161
Select Standing Committee on
Banking and Commerce, 9
Sincerity of Social Creditors, 6
Social Credit, 7, 8, 10, 95, 165
Social Credit misconceptions, 15
— propaganda, 6
* — Secretariat, 6-10, 165, 169
Social Credits or Socialism, 5

Tawney, Professor R. H., 1
Taxation, 151, 152, 163
This Age of Plenty, 8

Velocity of circulation, 139-41

War Loan, 92, 93
Warning Democracy, 118, 134, 156
Wealth, Want and War, 154
Webb, Mr. Sidney, 1
*What Everybody wants to know
about Money*, 4
Working capital, 81-3, 96-9

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