

# THIS AGE OF PLENTY

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*By*  
*C. Marshall Hattersley*

# THIS AGE OF PLENTY

*—its Problems and their  
solution*

By  
C. MARSHALL HATTERSLEY,  
M.A., LL.B.

*Author of*  
"The Community's Credit"

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To  
E.V.C. and E.V.H.

*from*  
*Marshall*

## FOREWORD.

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**T**O anyone who dispassionately surveys the trend of events, it becomes more and more evident that modern industrial civilisation is threatened with disruption. Long before the European War of 1914-1918—"the War to end War"—had entangled the nations of the world in a gigantic folly of self-destruction, strikes, lock-outs, and class-hatred had become familiar to every industrial community. The War did not engender this disquiet: it merely nourished and intensified it, until to-day our social, industrial and economic life is permeated with the fever of unrest.

In spite, however, of this striving of nation with nation and of class with class, there has probably never been a time in the history of mankind when the various members of the great human family realised more clearly and more universally their essential interdependence and brotherhood. Numerous and varied are the organisations which exist to express and foster the spirit of harmony between man and man and between nation and nation. Our hospitals, our charities and our Old Age Pension System all bear evidence to a growing recognition of the fundamental brotherhood of man. Whitley



Councils and Industrial Conciliation Boards seek to ensure the smooth running of industry. The League of Nations and the Rotary Movement exist, at least ostensibly, to promote peace on earth and goodwill among men and nations.

At first sight it seems somewhat inexplicable that with the will-to-peace so universal and so organised, the efforts of our rulers to re-establish an ordered civilisation on lines which they have been taught to regard as economically sound are meeting with so little success. But indeed it would be beyond the power of abler men than they to accomplish this, for it is in those parts of our political economy where we are most orthodox that we are most disturbed. In the majority of cases our rulers are seeking to eradicate external symptoms, mistaking them for the disease. Industrial strife, poverty and war are manifest evils, but underlying them is a radical defect in the existing economic system which no amount of goodwill and orthodox adjustment can alter, seeing that the forces of disruption are inherent in the system itself.

It is, therefore, not surprising that of late years a number of thinkers, realising that no patching up of the present system along orthodox lines will add greatly to its vitality or give to it new peace and harmony, have sought the solution of our economic difficulties in other directions. These, in contradistinction to writers of older and more orthodox schools of economic thought, may be conveniently termed the New

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## *Foreword.*

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Economists. Although often holding widely different views, they are united in finding in the present monetary system the basic cause of our unhappy condition.

The doyen of this band is Mr. Arthur Kitson. As long ago as 1894, Mr. Kitson called attention to the artificial and capricious character of a money system based on a foundation of gold, or for that matter of any other commodity, and at the same time made suggestions for establishing and maintaining an invariable unit of value. Probably Mr. Kitson would no longer seek the ideal monetary system along the lines suggested in his earlier works, but there is no doubt that to him is due much of the credit for the revival of interest at present manifested in this important question. And, although selection is invidious, there must here be mentioned two other writers who at the present day stand in the forefront of new economic thought—Major C. H. Douglas and Professor Frederick Soddy. It is with the ideas and suggestions of these two thinkers that the ensuing pages are principally concerned.

In conclusion, it may not be profitless to draw attention to the difficulties that hamper serious students of the financial system owing to the apparent lack of accurate and relevant information, especially regarding some of the most vital aspects of modern banking. The subject is one of the greatest importance, and, as Mr. McKenna, the Chairman of our



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largest bank and an ex-Chancellor of the Exchequer, has stated,\*

“there is still a wide field for inquiry on both the practical and theoretical sides. Unfortunately, however, the dearth of statistical information is a grave difficulty in the way of investigation. Individual banks cannot do much : it is useless for them to publish more than the customary details at present disclosed in their periodic statements, since no sound generalisation can be deduced from banking figures unless they relate to the banks as a whole. Co-operation between all the banks, including the central banks, in publishing the statistics required by scientific students would help us materially in the solution of some of the problems of credit-control.”

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\* Midland Bank Shareholders Meeting, 24th January, 1928.

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# PART ONE.

## THE PRESENT SITUATION.

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### CHAPTER ONE.

The Problem of the Machine Age.

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### CHAPTER TWO.

The Nature and Sources of Money.

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### CHAPTER THREE.

Prices.

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### CHAPTER FOUR.

Industrial Stagnation.

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### CHAPTER FIVE.

Palliatives.

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### CHAPTER SIX.

The Failure of Democracy.

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### CHAPTER SEVEN.

The Return to the Gold Standard.

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### CHAPTER EIGHT.

The Basis of a Rational Money System.

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### CHAPTER NINE.

The Purpose of an Economic System.

# THIS AGE OF PLENTY.

## CHAPTER I.

### THE PROBLEM OF THE MACHINE AGE

Introductory—Science and Industry—Science and Agriculture—The changed environment—Adam Smith and James Watt—The need for orders—A money problem.

#### (I)

There is no doubt that for some years past we have been witnesses of profound disturbances within our economic system, even though we may not have been conscious of their precise significance.

“Some say that it (the economic system) is visibly and rapidly breaking down. Others that it is only transforming itself, with pain and difficulty, perhaps, into something different and better. But at any rate at the moment it is producing, in a degree seldom exceeded before in our history, this terrible thing which we call poverty. And to-day more than ever before it is joining with poverty its second deadly evil, compulsory idleness—unemployment as we call it. It seems unable either to produce the things men need, or even to let them strive to produce them for themselves. It holds a vast army of men as if enchanted unable to make the slightest effort to satisfy their most elementary wants.

“The great twin ills of Destitution and Compulsory Idleness stare us in the face as the only things that really matter in public life to-day.”\*

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\* John Strachey in “*Revolution by Reason*,” at p. 20.

It is a curious fact that the various remedies suggested by would-be reformers for the cure of our social disorders are generally but readjustments within the existing economic system. The system is taken for granted, and the only struggle going on in the world at present is for positions within it. There is seldom any suggestion that it is possibly due to some imperfection in the system itself that unrest has become a permanent feature of industrial life, that international mistrust continues unabated, that poverty exists in the midst of potential plenty, and that the social ideals of mankind are continually thwarted by forces seemingly beyond their control or ken.

Before we assert that these and other evils are in any measure due to the imperfections of our economic system, it is necessary for us to understand something of that which we criticise. What exactly is the economic system? This question is far easier to ask than to answer, but it is perhaps sufficient to define the economic system as that part of the structure of society which deals with the satisfaction of men's material requirements. This attempted definition does not so much tell us what the economic system is as what it does or purports to do, so that the answer to our further question—What is the function of the economic system?—follows naturally from it. The primary function of the economic system is the production and distribution of the goods and services the

members of the community require. Whether or not this is the only true function of the system is a matter we shall have to examine later.†

For our purpose it is convenient to regard the economic system as divided into two component parts. Of these, the first is industrial, dealing with goods and actual physical production ; the second is financial, concerned with money and through money with the initiation of industrial processes and the distribution of the goods produced. These two broad divisions of the economic system, though intimately connected, are plainly distinguishable, and we shall obtain a far more complete view of the whole if we first of all consider each part separately.

(2)

Let us, then, consider first the industrial side of the economic system—that side which deals primarily with the physical problem of supplying the goods and services men need. Now although poverty and unemployment are everywhere in evidence, it cannot be disputed that at the present day enough is known about the technical details of production to render the industrial system physically able to meet any demand that can reasonably be made upon it. The last one hundred and fifty years—and it seems almost incredible that it is only a century and a half since Watt succeeded in harnessing

† *Infra*, Chapter IX.



steam to the service of mankind—have seen a remarkable advance in skill, knowledge, and mechanical power. Michael Flurscheim, in his book "*The Clue to the Economic Labyrinth*," gives a lengthy and varied list of marvellous mechanical and technical advances made during the nineteenth century alone. As he reminds us, the nineteenth century received the horse : it passed on to us the bicycle, the steam-engine, the motor-car. It received the goose-quill : it left us the fountain-pen and the typewriter. It received the scythe, and passed on the harvester and binder. During that single century the hand loom gave place to the factory, the tallow dip to electric light ; flint, steel and tinder were replaced by matches, the signal beacon by the telephone and wireless, the sailing vessel by the ironclad, and leather fire-buckets by the modern fire engine. That same century gave us lithography, the camera, X-rays, the dynamo and anaesthetics.

This list, already impressive, might be extended indefinitely. But the process did not end with the nineteenth century. Already to the first quarter of the twentieth century we owe among other things the cinema, the motor-cycle, the aeroplane, wireless telegraphy, television, tanks and poison gas.

Equally astonishing is the way in which water-power has, during recent years, been harnessed to man's service. The tremendous electric power stations that gather but a minute

fraction of the energy of Niagara come readily to mind. It has indeed been computed that the water power of Canada has now been developed to 15,000,000 horse-power, energy stated to be equivalent to the effort of 900,000,000 men. And the scientific employment of water-power is still in its infancy.

Probably, however, the most astounding feature of the last fifty years is the way in which modern science has eliminated distance. Few parts of the world are too remote to come into close contact with the newest achievements, or to receive messages almost as soon as they are sent. It is like a romance to read that the time taken for a message to pass from London to Lake Tanganyika is now, owing to wireless telegraphy, the fortieth of a second; that London can talk to New York by telephone; that a central European air service can reach India in three days; that the Atlantic has been crossed by an airship, in none too favourable conditions, in under eighty hours; that an aeroplane can glide over the roofs of Hankow within a hundred hours of leaving Paris; or (as was stated at the 1925 general meeting of the London General Omnibus Company, by the Chairman, Lord Ashfield) that the London 'buses are estimated to carry 1,300,000,000 passengers in a year, and to travel in the aggregate a distance of 153,000,000 miles annually—equal to 19,000 times round the world.

(3)

The same story of achievement and possibility is true of Agriculture as an industry. A most interesting estimate of our war-time agricultural achievements has been made by T. B. Middleton in his book "*Food Production in War.*" He is quoted by Professor Soddy as stating that the supply of energy required by one person approximates to one million calories (or heat-units) every year ; that the food supply of the United Kingdom from all sources during the years 1909—1913 was estimated to be sufficient to provide an annual average of 49,430,000 million calories, of which the product of the home soil was calculated to furnish 16,870,000 million calories ; and that by 1918 the amount of home grown foodstuffs had been increased by the equivalent of 4,050,000 million calories annually, or about 24 per cent.

"In other words, whereas the country began the War with supplies provided by its own soil which would have sufficed for 125 days out of the 365, in the year in which the Armistice was signed it had secured a harvest that would have sufficed for 155 days out of the 365. The crops were grown and the stocks fed under conditions that were altogether abnormal; but the land's extra produce was equivalent to the supply of 30 days' food for the nation *living its normal life.*"\*

Nor is there any reasonable doubt that, had the war continued longer, our home-grown food supply would have been increased to a still greater extent. If, then, during the war period,

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\* "*Wealth, Virtual Wealth and Debt.*" at p 256.

with the flower of our manhood engaged in fighting and many of the remainder making munitions, we managed to raise our output of home-grown foodstuffs by 30 days normal supply, it is certain that it was at any rate no physical obstacle which had previously curtailed our home production. Now that the war is over, and more man-power is available, over a million acres have relapsed into grass-land and we produce only enough to last us fifteen weeks out of the fifty-two.

In 1912 Prince Kropotkin, in the last edition of his celebrated "*Fields, Factories and Workshops*," gave it as his considered opinion that, if only cultivation was undertaken intensively in Great Britain, we could, with the knowledge and technical resources then possessed, support a population of 90,000,000. Since then great advances have been made in agricultural science, more particularly with regard to the fixation of nitrogen from the atmosphere and chemical manuring.

But, as Professor Soddy points out : †  
"the peculiar position of this country, in which agriculture, instead of being carefully fostered, has been allowed to decay, must not be taken as settling this question. It is merely the obverse of the opposite situation abroad. In the newer countries we hear of corn and other forms of food, after too abundant harvests, being used as the cheapest fuel ; of farmers being ruined by an over-production of crops and stocks, and forced to restrict production severely to

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† In "*Wealth, Virtual Wealth and Debt*," at p. 257.

maintain an economic livelihood . . . The problem, if there is one, is one of exchange, not production.” And the introduction of earlier ripening wheat continually increases agricultural potentialities, not only by discounting the crop damage from early frosts, but also by opening up for settlement and cultivation more and more virgin land in regions north of the present grain area.

(4)

This tremendous increase in the physical ability of mankind to satisfy material requirements has raised a new and as yet imperfectly comprehended problem. The situation confronting us to-day is very well set out in an article which appeared in “*The Beacon*” for October, 1922. Dr. Esmé Wingfield-Stratford there wrote as follows:—

“Is it possible for the human spirit to adapt itself to the new conditions created by its advance in material power? That question has been insistent ever since the revolutionary change in the pace and conditions of life that began to manifest itself roughly in the middle of the XVIIIth century and has been going on ever since. What has been the ruin of other species, our predecessors in the march of evolution, has consisted in a change of environment beyond their powers of adaptation. But man has accomplished the unique feat of changing his own environment without the least consciousness of the acute problem that he has been creating for himself thereby. For a revolutionary change in environment, whether by one’s own action or not, calls for a revolutionary adaptation of life to meet it . . . The power of man to appropriate to his use the kindly fruits of the earth has gone on increasing and multiplying, and if man

has failed thereby to increase his capacity for leading a noble and beautiful life, that must be the fault of his own blunderings. By sheer lack of any mental effort to take control over his destiny, he has made a shameful waste of his resources, or even allowed them to be turned to his own destruction. By a dreadful paradox, every increase of power leads to an increase of misery, and brings him nearer to the abyss."

It is not necessary to accept this last statement without qualification to realise that something is very much amiss somewhere. The fact that such a conclusion is not instantly condemned by the evidence of every-day experience should make us think hard. For, looking around, what do we see? An amazing poverty existing in the midst of a well-nigh incalculable possibility of plenty; the majority of persons spending the best portion of their lives, week in, week out, in humdrum if not actually brutalising conditions—many engaged on work that could be usefully dispensed with; thousands more "out-of-work" and consequently subject to all the poverty and indignity that to-day follow in the wake of compulsory unemployment.

(5)

Thus we see that the marvellous achievements of Science applied to Industry during the short period of a century and a half have completely altered man's environment. In those hundred and fifty years the Western World has passed out of an era of handicraft into a machine age, and the Eastern World follows hard after.



In spite of this fact, so obvious as to have escaped the notice of all but the more simple-minded,

"Political Economy continues to base its reasoning upon a tacit admission of the impossibility of rapidly increasing the productive powers of a nation and of thus giving satisfaction to all wants . . . Political Economy never rises above the hypothesis of a limited and insufficient supply of the necessities of life ; it takes it for granted."\*

We are still as a community striving to apply to modern conditions the economic theories we have inherited from the pre-industrial era. The tragedy of modern civilisation is the result. As Professor Soddy reminds us †

"It is significant to reflect that Glasgow, which produced James Watt, the inventor who brought the steam engine to practical success, was the home of Adam Smith, the father of the system of political economy under which the scientific era has developed. Whilst the former in 1774 was perfecting an engine destined to lift men from the drudgery of animal labour and to establish over the whole world a new mode of livelihood, the latter in 1776 was erecting into a theoretical system the conditions under which, *till then*, men had pursued their economic livelihood. The world might have assimilated either the steam engine or the economics, but it is difficult to understand how it could possibly digest two such mutually incompatible productions simultaneously.

"The Glasgow of James Watt and Adam Smith was a city of 28,000 people, hardly less provincial than Kirkcaldy, the birthplace of the author of *The*

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\* Prince Kropotkin, in "Fields, Factories and Workshops."

† "Wealth, Virtual Wealth and Debt," at pp. 19 and 20.

*Wealth of Nations*," and the place to which most of his outlook on the subject can be traced. The Glasgow of James Watt and Adam Smith is, to-day, a city of over a million people, the second largest in the British Empire. It is a monument as much to the work of the one as the other, being, on the one hand, the centre of the great Clydebank marine engineering industry and, on the other, of the social revolution against rent, interest and profit, fostered by unemployment, house-shortage and high cost of living—famous for its ships and street-orators in every corner of the globe."

(6)

The reason why so many industrial concerns are to-day closed or working short time is not the lack of human skill or energy to work them, nor yet a scarcity of mechanical resources or of raw material. Still less is it due to a lack of desire for goods. No, what is needed is this—orders. An order for goods implies two things: it implies a desire for the goods, and a promise to pay for them. There is no question about the desire for goods to-day: what is missing is the talisman that turns a desire into an order. That talisman is money.

With certain small exceptions to which we shall refer at a later stage\* money to buy goods or command services only reaches the would-be consumer—the individual member of the community—you and me—via the wages, salaries and dividends distributed by Industry in the course of production. The money may reach the consumer directly, as in the case of the

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\* *Infra*, Chapter 3, Section 20.

workman who receives his wage, or the investor who is paid a dividend. Or the money may reach the consumer indirectly, as in the case of the doctor or the shopkeeper, who obtains his fee or his price from the workman and the investor : or more indirectly still, as in the case of the Old Age Pensioner, who receives his allowance from a fund supplied by the taxation of the workman, the investor, the doctor and the shopkeeper.

To-day, therefore, we find ourselves in a position of stalemate. On the one hand, we find would-be purchasers waiting for the wheels of Industry to start revolving, and for the flow of wages, salaries and dividends to recommence so that they may buy the goods they need. On the other hand, we see manufacturers with idle plant, equally with workless men, clamouring to be allowed to produce things, but compelled to wait until the consumers have, through the processes of Industry, acquired sufficient money to place orders.

(7)

It may be as well if we pause here to realise that Poverty and Unemployment are a monstrous contradiction, and that the former, at least, is an anachronism in this age of scientific production. Inventions and discovery have already brought us to the stage when we could quite easily produce all that we can reasonably want. Yet it would be frankly absurd to say that there are not at the present day large

numbers of people who draw nothing from the productive system beyond a meagre subsistence minimum. The problem of the machine age is not so much that of producing the goods men need, as that of enabling the persons who need goods to obtain them. The problem is, in short, a money problem.

Perhaps it will be helpful if we state in three definite propositions the conclusions to which we have already come. What we have so far seen is that :—

- (1) The existing economic system has been built up on assumptions and theories inherited from the pre-industrial era.
- (2) During the past 150 years the physical problem of production has been almost, if not entirely, solved.
- (3) The problem of the proper distribution of industrial products still awaits solution. That is a money problem.

## CHAPTER II.

## THE NATURE AND SOURCES OF MONEY.

What is Money?—Development of the Conception of Money—The Bank Note and the Cheque—Bank-created Credit-Money—Some Statistics—“Balances with the Bank of England”—Money not a Commodity.

(8)

It cannot be seriously disputed that in the modern economic system the industrial side is subservient to the financial or money side. The fact that financial arrangements do not permit is generally accepted as a sufficient reason why work should not be done or goods distributed. Though the need for such work or such goods is real and urgent, while at the same time suitable plant and material lie idle, and armies of unemployed clamour for jobs, production cannot proceed without money, and money can only be obtained by the methods sanctioned by the rules of the financial system.

The financial system regulates the issue, distribution, collection and cancellation of money, and considering the amount of time spent by each one of us in earning and spending, borrowing and lending, it is remarkable how ignorant the average person is about such matters as the following:—What is comprised in the term “money”? What is the distinguishing characteristic of money? How is it issued? How does

it function? And, perhaps most important of all, where does it go to?

Here let us state quite explicitly the sense in which we use the word "money." Money is of two distinct kinds. There is, in the first place, currency, tangible tokens that pass from hand to hand in the course of business: currency includes metal coinage, bank notes and paper money put into circulation by the State. Secondly, there are bank deposits, "credits" drawable and transferable by cheque. The total amount of currency in active circulation added to the total of bank balances, represents the money of the community as a whole.\*

(9)

The earliest economic system must have rested on a barter basis. In other words, goods and services must have originally been exchanged directly for other goods and services. As time went on, however, it was found a convenient practice to effect exchanges indirectly by means of some sort of currency tokens, which tokens were themselves objects of value, such as cattle, hides, or gold. At first, therefore, exchange by token was only a kind of indirect barter. The goods and services of one man were exchanged directly for the intrinsically valuable tokens of his neighbour, which tokens were later exchanged for some other goods or services required by him. But gradually people began to

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\* Cf. Rt. Hon. R. McKenna, Midland Bank Shareholders Meeting, January, 1927.



accept payment in currency tokens, not primarily because these tokens were valuable in themselves, but because it was found by experience that they would effectively exchange for other goods and services. Where previously the acceptability of the currency-token had lain in its intrinsic value, subsequently it became generally accepted because of the function it performed.

Thus we reach a stage in economic development in which it became realised that a money-token need not possess any intrinsic value at all, so long as it was known from experience that it would exchange readily and directly for goods and services. The growth of this conception is well illustrated by the way people, during the European War of 1914-1918, accustomed themselves to accept a Treasury note as the equivalent of a golden sovereign. When people first began to use paper money instead of gold it was because they believed that such paper money would effectively exchange for gold, and through gold for goods and services. But the reason why people continue to accept paper money is—not because it will exchange for gold, for generally speaking it will not—but because they realise that it will exchange directly for goods and services, without the intervention of gold at all. We thus arrive at a true conception of the nature of money: money is simply a social mechanism designed to facilitate orderly production and distribution. The money system is to all intents and purposes merely a system of

tickets entitling the holders to goods and services. Above all, money as such is not a commodity : it has no intrinsic value apart from the function it performs, and to regard money as a commodity is proof of a radical misunderstanding of that function.

(10)

We have noticed how first of all the commodity-token ousted barter as a commercial mechanism, and how, more recently, the paper currency note has replaced the golden sovereign. And we come now to a still further development, that of an intangible notional form of money, which, as we shall see, is in its turn more and more tending to supersede currency—tangible money-tokens—in all but the most trivial transactions.

When merchants, in the later Middle Ages, felt the need for some safe place in which to store their money until they required it, the only people inspiring them with sufficient confidence were the goldsmiths, and the practice arose of depositing money with them. At first when a merchant had payments to make, he would withdraw his money to enable him to do so. Later on he merely gave an order to the goldsmith to pay over the necessary sum to his (the merchant's) creditor. The order would probably be in the form of a letter, running perhaps somewhat as follows: "To Mr. Goldsmith. Please pay to Mr. Creditor the sum of £100 out of the moneys belonging to me now in your possession. (Signed)

John Merchant." The merchant's order to the goldsmith has with slight modification become the modern cheque. Similarly the receipt given for a deposit of gold developed later into the modern bank note.†

It was during Cromwell's protectorate that the goldsmiths, who were exceedingly prosperous, began to be referred to as Bankers, and in 1694, as a natural development, a purely banking institution, the Bank of England, was founded.

The convenience of cheques for the settlement of transactions and payment of debts is obvious. Merchants naturally realised that if Smith owed so much to Brown while Brown owed so much to Jones, and Jones so much to Smith, it was far simpler and more economical, instead of undertaking three separate transactions, to let some banker set off these various debts against each other, and pay over the final balance to the person to whom it was due. But the final creditor, anticipating similar transactions in the future, would then probably instruct his banker to hold this balance "to his credit" against such a contingency. Gradually, therefore, it became a general and convenient

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† Cf. C. P. Isaac in "*The Menace of Money-Power*," Chapter 4. Although prior to 1844 many banks issued their own notes, the Bank Charter Act of that year has resulted in restricting right of note issue in England and Wales entirely to the Bank of England. This it did by enacting (a) that the note issue of other banks was not to exceed the mean for the twelve weeks preceding April 27th, 1844; (b) that all banks ceasing to redeem their notes on demand were to lose their right of issue and (c) that the notes of other banks were not to be legal tender.

practice for people to leave their balances with their bankers, to the credit of their various accounts, and to instruct them from time to time to adjust those accounts in accordance with their mutual transactions.

(II)

With the growth of banking, most of the ready money of the community came into the hands of the bankers. There was continuous paying in and drawing out, but always there remained a very large sum untouched. The depositors as a whole never needed to withdraw more than a proportion of their deposits at any one time, and the bankers thus gained possession of a fund of available money beyond any sum necessary to meet likely demands. Suppose then that some merchant or manufacturer approached his banker for a loan for business purposes. The banker would probably agree, on terms, to lend some portion of this available surplus. Now

“when a bank makes a loan to a customer, or allows him an overdraft, in the ordinary course the loan will be drawn upon or the overdraft will be made by a cheque drawn by the customer upon the bank and paid into someone’s credit at the same or another bank. The drawer of the cheque will not have reduced any deposit already in existence, because we are supposing a case in which he has been given a loan or allowed an overdraft. The receiver of the cheque, however, when he pays it into his own account, will be credited with its value and thereby a new deposit will be created.” \*

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\* Rt. Hon. R. McKenna, January, 1920.

This overdraft, then, creates new money as certainly as if the banker had coined it, or printed bank notes for that amount.

But it is not only by means of overdrafts that the banks create new money.

"In the same way, when a bank buys or discounts a bill, the proceeds of sale are paid into the credit of the seller's account and increase the total of bank deposits. And in the same way, when a bank buys War Loan or makes any other investment, the purchase money goes to the credit of somebody's account in some bank, and increases the total of deposits." \*

So we see how every bank loan and every bank purchase of securities creates money, and by similar reasoning we can see also how every repayment of a bank loan and every bank sale destroys money.†

Thus in addition to tangible currency there has come into circulation a mass of new, intangible "credits," which are mere matters of book-entry but none the less money on that account—so much so that to-day it has become the usual and convenient practice to settle accounts by means of transfers of credit in the books of the banks.

(12)

Confining, for convenience, our attention to Great Britain, but realising that similar conditions prevail in all modern industrial communities, it may be that a few figures will help

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\* Rt. Hon. R. McKenna, January, 1920.

† For further elaboration of and for figures illustrating this argument the reader is referred to Appendix "A."

us to realise the extent to which this intangible credit-money is superseding currency in modern usage. Prior to 22nd November, 1928, British Currency consisted of the metal coinage and Treasury Notes issued by the Government and the Bank Notes issued principally by the Bank of England but also to a small extent by certain Scottish and Irish banks. At the end of 1927 the total money in the country must have been round about £2,150,000,000, composed as follows:—Bank-created credit-money (the reflection of bank investments, loans and discounts) £1,675,000,000; Treasury Notes, £300,000,000; Bank notes of all kinds, £115,000,000, and metal coinage, £60,000,000.\* About 78% of the whole of the nation's money thus consisted of notional, intangible, credit-money. If we add to this the face value of the bank notes we find that of all the money circulating within the community in the year 1927, at least 83% was the creation of the banking system, and only about 17% the creation of the Government. And if we include the nominal value of the paper Treasury notes then in use we find that only something under 3% of our money consisted of tokens intrinsically valuable, and that 97% at least was acceptable for no other reason whatever than that it formed an effective title to goods and services.

In passing, it may be pointed out that since 22nd November, 1928—on which date the Treasury notes were officially replaced by notes

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\* See Appendix "A."



of the Bank of England—only the 3% of our money which consists of tokens intrinsically valuable is National Money: the other 97% is created and virtually controlled by the Banking System.

A passage from "*The Financial Times*" of January 2nd, 1923, is well worthy of attention. It runs thus:

"The late Lord Avebury (then Sir John Lubbock) stated in the Journal of the Statistical Society of September, 1865, that out of £1,000,000 paid into his bank only £21,500 consisted of bank notes, and £6,210 of coin; notes and coin thus being only 2.7% of the total . . . Statistics taken recently at the banks in the city shew . . . that the 2.7% of 1865 has sunk to less than 0.7% in 1922 . . . Indeed it may be stated that, except for the purchase of property, payment of wages, household and pocket expenses, legal currency has been almost entirely superseded by the cheque based on credit."

In the year 1924, thirty-nine thousand five-hundred and thirty-three million pounds, representing transfers of pure bank-credit, passed through the Bankers' Clearing Houses. With regard to this gigantic total the honorary secretary of the London Clearing Bankers wrote in his annual report:

"The year 1924 having achieved a new record in the turnover of banking in this country, it is not, perhaps, altogether out of place to restate the fact that the daily transfers aggregating this enormous amount of money have been made without any call upon the currency of the country for its assistance in effecting a settlement."†

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† The corresponding figure for 1928 was £44,204,729,000, creating a further record.

(13)

There is, however, a limit to this power on the part of the bankers to create and issue new money, which limit is inherent in their theoretical liability to pay out legal-tender (if and when demanded) to the extent of their deposits. From experience the bankers know fairly accurately what percentage of their deposits they may be called upon to repay in cash at any one time, and therefore they retain sufficient cash in relation to the total of their liabilities to meet any probable demand. In other words, their policy is to maintain a more or less constant proportion between their "cash reserve" and their liabilities to depositors. Thus a limit is self-imposed on the power of a bank to lend, according to the amount of bank-cash it holds, and so long as the canons of sound finance are observed there is no increase in the aggregate amount of bank-credits issued by the Joint-Stock Banks unless at the same time the banks' holding of "cash" is also augmented.

Now, if we examine the balance sheet of any of our large joint-stock banks, we shall find that the first item on its assets side runs something like this: "Coin, bank notes, and balances with the Bank of England." These are all included in the term "bank-cash," and form the basis of the bank's issues of credit. Coin of the Realm and Bank of England notes are legal tender and remain fairly constant in amount, and although the requirements of the

public for currency naturally result in temporary fluctuations in the cash reserves of the joint-stock banks, such variations are recognised as short-lived and of no very serious extent. The banks do not usually consider it necessary to expand or contract credit-money in sympathy. It is now generally recognised that the principal cause of any but the most transient fluctuations in the amount of bank-cash is deliberate action on the part of the Bank of England.

The Bank of England stands on quite a different footing from the other banks; now-a-days it is not really a people's bank at all—it is chiefly a bank for Bankers and the State. We have noticed how, in addition to the currency, the joint-stock banks regard their balances with the Bank of England as bank-cash. Further

“we have already seen how every loan or investment by a bank creates a deposit. But a loan or purchase by the Bank of England has a further effect; it creates bank-cash, or, in other words, adds to the banks' cash resources. Suppose the Bank of England invests a million in War Loan. The seller receives a draft for £1,000,000 and pays it into his own bank, which will consequently increase its balance with the Bank of England by that amount. Actually a million of bank-cash will have been created, which will become the basis of new bank loans. The Bank of England may make loans or force repayment by modifying or increasing the severity of its terms. It may buy gold or sell gold. It may buy securities or sell securities. Every transaction of this kind leads to a variation in the amount of money in the country.” \*

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\*Rt. Hon. R. McKenna, January, 1924.

It is therefore evident that the Bank of England has power to increase or decrease the amount of bank-cash within the British financial system. In this way it can cause the expansion or contraction of that vast quantity of bank-credit which forms by far the greater part of the nation's money. This power the Bank of England does not hesitate to exercise. †

(14)

We have seen, then, what money is, how it is created, and by whom. We hope in later chapters to shew the relation existing between monetary policy—the policy regulating the quantity of money in circulation at any one time—and industrial prosperity or stagnation. Meanwhile, however, let us restate what we have so far seen in the form of three further propositions.

(4) Money is not a commodity: it is essentially a title to goods and services—a social mechanism for their orderly production and distribution.

(5) Money is of two kinds: currency, which is tangible and passes by delivery, and credit-money, which is intangible and only transferable by entries in the books of the banks. The former, which is created and issued by both the Government and the Bank of England, bears a continually decreasing proportion to the latter which, under the present

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† Cf Sect. 38, *infra*.

system, is created and issued only by the banking system.

(6) The ultimate control of the quantity of money in circulation rests, under the present system, with the bankers, and (in the United Kingdom) with the Bank of England.

## CHAPTER III.

### PRICES.

Is there any "Law of Prices"?—Velocity of Circulation—  
Monetary Contraction—Trusts and Combines—Price  
Rings and organised Restriction of Output—Monetary  
Expansion—The Psychological Effect of Anticipation.

(15)

We have already seen that money is a title to goods and services. When, however, we consider the extent to which money can actually procure goods and services, we find that this depends not only upon the amount of money we have to spend, but also upon the price we have to pay. The question of price must therefore be our next consideration. Is it possible to enunciate any "Law of Prices"?

One word of warning. When we use the term "law" in relation to any economic phenomenon we must be careful to bear in mind the fact that such a "law" is merely the observed result of the working of a given system, and that a modification of the system might very conceivably result in other and quite different "laws." Economists seem peculiarly liable to dignify what are, after all, merely social phenomena, with the term "inexorable economic laws." Still, the term "law" is a convenient one, and there can be no harm in our using it so long as we are perfectly clear in our own minds what we really mean by it.

In his "*Principles of Political Economy*," Mill states it to be "the most elementary proposition" that (other things being equal) "an increase in the quantity of money raises prices and a diminution lowers them." This assertion is so sweeping that it is practically useless as a working hypothesis, especially as other things do not remain uninfluenced by variations in the amount of money in circulation.

As Arnold Toynbee has remarked :

"The geologist or the physicist has the facts of the physical world before him ; he can quietly observe them—he can make experiments ; but the economist has to deal with facts which are far more complicated, which are obscured by human passions and interests, and, what is still more to the point, which are perpetually in motion."

In no part of economic study is this more true than in the consideration of the influences that cause prices to rise or fall. Variations in the quantity of money in the hands of potential spenders, or in the rapidity with which such money passes from hand to hand, or in the quantity of goods available of the kind required, or in the number of sources from which such goods may be obtained, or even in the speed with which they can be replaced, are among the influences which must be taken into account. It is therefore unwise to attempt to enunciate any "Law of the General Price-Level" more definite than the following : "*Under the present economic system the total prices of goods awaiting buyers will always be at least sufficient to*

*absorb the simultaneous monetary demand for goods."*

The extent of the monetary demand for goods is determined by two considerations : first, by the total *quantity* of money that people have at their command, and secondly by the *speed* at which they spend it. If they spend more freely we find, in conformity with our "law of the general price-level" that not only are more goods attracted to market but also that prices tend to rise to absorb the extra money seeking goods. The effect upon the general price-level is the same as if the quantity of money in existence had increased while the velocity of its circulation remained unaltered.

Similarly, a decrease in the general readiness to spend has the same effect upon prices and trade as has an actual diminution in the aggregate amount of money. This is well illustrated by an extract taken from Mr. E. M. H. Lloyd's treatise on "Stabilisation." At page 55 we find this statement :

"The important point to note is that in spite of the severe fall in prices, amounting to 30 per cent. in the course of 1921, there was no decrease in the volume of bank deposits. As Mr. McKenna pointed out . . . what dear money and restriction of credit accomplished was a reduction of the rate at which purchasing power changed hands ; in other words, the velocity of circulation of money was reduced. He estimated that there was a decline of at least 40 per cent. in the velocity of circulation in 1921 as compared with 1920."



Although in this case the quantity of money remained almost constant, a greatly reduced velocity of circulation was the cause of a decided, though somewhat smaller, fall in the general level of prices.

(16)

In considering the extent of the monetary demand for goods, it is necessary to remember that not all the money existing within a community is at any given instant available for immediate spending. A community's money, as already defined, consists of the total amount of currency in active circulation added to the total of bank deposits, but bank deposits themselves are of two kinds—money held “on current account,” immediately withdrawable by cheque, and money held “on deposit account,” either lodged with the bank for some definite period or only withdrawable after notice given. “Demand deposits” are essentially money in active use in business of all kinds; “Time deposits” have more the character of temporary investments, and are not at the moment available to purchase goods.

Now the placing of money “on deposit account,” and so temporarily renouncing the right to spend it at will, is naturally reflected in a reduction in the average velocity of circulation. It is important, therefore, to observe that during the years 1920—1928 the proportion of “time deposits” to total bank deposits rose in the case of the Midland Bank from 33.7% to 44.7%,

and probably to a similar extent elsewhere. Thus, although there was during those years some slight increase in the total volume of money, there was no corresponding increase in the total monetary demand for goods.\*

It is, moreover, worthy of notice that the same causes that make for a diminution in the monetary demand for goods generally tend also to decrease the speed at which such money passes from hand to hand, and, similarly, that those influences which tend to expand the national spending-power also encourage it to circulate more rapidly. Any tendency towards a falling level of prices affords a strong inducement not to spend. When each money unit is seen to be gradually increasing in buying-power, people naturally postpone their purchases as long as possible, and, among other things, the proportion of "time deposits" to general bank deposits tends to increase. Any decrease in the monetary demand for goods is thus frequently intensified by a psychologically induced retardation of circulation. And in the opposite case, when the quantity of money is perceptibly increasing, spending becomes easier for there is more to spend. If prices rise it also becomes more profitable, for as time passes each unit of money buys less. In such circumstances the ratio of "time deposits" to total "bank deposits" tends to decrease and the velocity of circulation to rise. Accordingly we find that

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\* Rt. Hon. R. McKenna, January, 1929.

the effect of an actual physical increase in spending-power generally tends to become accentuated by a higher velocity of circulation.

But while there is a very wide range over which the amount of money in circulation may vary—the amount of money in Great Britain increased 125% between 1914 and 1920—neither the proportion of time deposits to total bank deposits nor the general velocity of circulation can vary (save very exceptionally) to anything like the same extent, and then only temporarily. A great proportion of our population lives a hand-to-mouth existence, too near the poverty-line to be able to practise the lauded virtue of “saving,” and their more well-to-do brethren invest the greater part of their “savings” as they accrue (and “investment” through “savings” is frequently only another form of spending†), so that the velocity of circulation is, on the whole, subject only to comparatively slight variation. In future, therefore, we shall generally confine our attention to the far greater cause of variation in monetary demand, namely the increase or decrease in the actual quantity of money, realising that any accompanying variation in velocity of circulation usually operates to

† This needs, perhaps, a little explanation. When a man invests money in some industrial enterprise, this is “saving” from the investor’s point of view in that his security can be sold and the proceeds spent at a future date. The money invested is, however, actually spent on capital extensions, plant and machinery. See also “*Revolution by Reason*,” pages 221 and 222.

heighten the effect of the expansion or contraction of the money supplies.

(17)

So far we have considered the "law" governing the general level of prices. When we come to consider what it is that determines the price of any given commodities or classes of commodities we find it commonly asserted that Demand, relative to Supply, regulates the prices of any marketed article—in other words, that the price of a thing is "what it will fetch." But there is also another business principle, accepted to-day as axiomatic, and that is that the price of an article cannot be less than the financial cost of its production, or, more simply, that every penny paid out in the process of its production and distribution must be recovered in price. It will, no doubt, be pointed out that not infrequently traders do sell "below cost," but this of course is merely a temporary expedient and only done in the hope of recovering any present loss in enhanced future prices.

It is a matter of fundamental importance to realise that a diminution of the public spending power does not necessarily result in a correspondingly reduced level of prices. If certain commodities cannot profitably be produced at a reduced price, or if the public cannot afford to pay at least their production cost, then such goods tend to vanish from the market. Instead of their prices falling, these articles remain un-

sold or, if sold, unreplaced. Accordingly if monetary contraction

“be long continued its effect will shew itself particularly in a lower scale of production. A decline in the price-level will be arrested by the higher cost of manufacture, and an exceptional degree of unemployment will persist.”\*

Here we have one explanation of the fact that prices are not on the whole so responsive to a contraction of spending-power as they are to an expansion. Another explanation we shall now proceed to consider.

(18)

The virtues of trade competition have been repeatedly eulogised as conferring upon the community as a whole the benefits of industrial enterprise, energy and initiative. But whatever lip-service we may pay to competition in theory, it is becoming daily more apparent that, in practice, combination of interests is rapidly taking its place. The multiple shop is everywhere tending to oust the small independent trader. The non-union workman will soon be as extinct as the Dodo. In May, 1919, the Government Committee on Trusts and Combines reported that “the industries of Great Britain are now controlled on the capital side by a complete system of business rings, combines and trusts.” Instinctively we think of the great sewing-cotton monopoly of Messrs. J. & P. Coats, Ltd., of gigantic mining and industrial

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\* Rt. Hon. R. McKenna, January, 1926.

combines such as Messrs. John Brown & Co., Ltd., or the powerful British American Tobacco Company, Ltd., with its numerous subsidiary branches.

In itself the substitution of consolidation for competition is not wholly an evil, and indeed to a certain extent modern scientific progress has rendered it inevitable. It is economically sound in that it helps to eliminate waste, and should tend, through co-ordination, to efficiency. Consolidation makes possible the employment of bigger and better plant and the installation of labour-saving devices on a large scale, and offers unprecedented facilities for scientific experiment and research.

On the other hand there is an evil inherent in this tendency towards gigantic monopolies which lies in the fact that the industrial trust controls not only the quantity and quality of the things it supplies, but also the price. It is this power over prices that gives to trusts or combines their anti-social aspect. The man in the street is apt to overlook the theoretic benefits of trustification when he learns that the net profits of the British American Tobacco Company increased from £148,541 in the first year of its existence (1903) to £7,474,687 in the twenty-first. He wonders when the price of tobacco will be reduced. His wife has somewhat similar thoughts when she reads in her paper of the three million pounds net profits of Messrs. J. & P. Coats, or of the balance of profit of

Messrs. Lever Brothers which amounts annually to over £5,000,000. The Union Cold Storage Company Limited, with its fifty auxiliary or allied companies, has a capital of £20,000,000, and controls practically the whole of the chilled meat traffic in Great Britain. Tobacco, cotton, soap and meat are among the necessities of life. The aim of each of these gigantic organisations is to secure the absolute monopoly of some necessity of life so that it can, by eliminating competition, control effectively the price the public has to pay for the goods it supplies.

(19)

In addition to the Trusts and Combines, which certainly contain possibilities of increased efficiency and usefulness, there are many associations in Industry whose sole object is to maintain a higher level of price for their goods than they could otherwise realise. Price Rings leave intact all the evils of competition—its overlapping, waste, and so forth—and remove its chief benefit, a tendency to keep down prices. The only object of such associations is the exploitation of the public.

Now it is all very well to rail against Trusts, and even more so against Price Rings, stigmatising them as anti-social, and their policy as commercial brigandage, but we must also realise that they are only the logical outcome of the present price system. So long as we are content to acquiesce in the statement that the price of anything is "what it will fetch," we must,

logically, also be prepared to put up with the perfectly natural and legitimate attempts of manufacturers and traders to make every article fetch as much as possible. It is childish to cast aspersions on the player who utilises the rules of the game to his own or his side's advantage. It is far wiser to modify the rules.

But what are we to say when we find the Government itself countenancing and even to some extent organising restriction of output in order to induce a higher level of prices? The classic example of this is the deliberate curtailment of the rubber supply in accordance with proposals approved by the Colonial Office Rubber Committee in October, 1922. Briefly, the Committee recommended a scheme of compulsory restriction of output varying with the amount of rubber exported by the different producers. How far this restriction was actually carried out can be gathered from "*The Observer*" of July 27th, 1924.

"The restriction on the export of rubber by the producing companies will on August 1st next be increased under the Stevenson scheme by 5%. At present the companies are allowed to export 60% of their standard production. After August 1st the amount will be 55%. If within the succeeding three months the price of rubber does not average 1s. 3d. per lb. there will be a further 5% reduction to 50%. So it will go on until for a full period of three months the price has averaged 1s. 3d. per lb."

The individual citizen had accordingly to pay greatly increased prices for motor-tyres and



a hundred and one other articles of every-day use.

Although restriction of the rubber output has for various reasons now been discontinued, organised reduction of output has been so successful in raising the price of rubber that there is the gravest danger of the same policy being applied to other essential commodities, such as sugar and cotton. Amidst the present world-hunger for goods such a preposterous policy invites its own condemnation and the condemnation of the economic system that allows and even appears to render it inevitable.

So we find that those influences which tend to induce a lower level of prices are to a considerable extent counteracted, first by the so-called "law" that all "costs" must enter into price, and secondly by the deliberate action of Trusts and Price Rings, and sometimes even by action on the part of the Government itself.

(20)

The growth of population and the expansion of Industry naturally call for an increase rather than for a decrease in the quantity of money in circulation, and we must now consider in more detail the effect of an increased volume of money on both prices and production. Before we do so, however, let us once again remind ourselves that the principal, substantially the only, cause of variation in the amount of money lies in bank-loans and their repayment, bank purchases and sales.

Now a distinction is very frequently drawn between issues of bank-credit-money to producers, and other issues, generally termed "non-productive." It is often contended, particularly by bankers and financial houses, that the issue of bank-credit for productive purposes does not tend to raise the level of prices. The argument is, of course, that such newly-created money, being used in the production of new commodities, merely maintains the existing proportion between money and goods, so that the price-level is unaffected. In support of this contention can be instanced the situation in the United States where, between the end of 1922 and the end of 1926, the amount of money in circulation expanded by over 25%: where production in the basic industries was simultaneously increased by about the same percentage, and where wholesale prices, according to the Bureau of Labour Statistics, advanced less than 5% during the same four years.

The success of monetary expansion in inducing additional production to a corresponding extent, instead of merely raising prices to a higher level, depends on many things. It depends, for instance, on whether the fresh issues of money are made chiefly in respect of the production of such goods as individuals require ("ultimate" commodities), or chiefly to finance capital production (e.g., the building of factories, the development of mines, or the extension of plant) for which individuals as such have no

direct use ("intermediate" commodities)<sup>†</sup>. Issues of bank-credit-money in respect of the production of all kinds of goods reach the individual members of the public through wages, salaries and dividends, so that new issues made in respect of "intermediate" production entail an increase in the spending-power of consumers. If this takes place without any simultaneous and corresponding increase in the amount of "ultimate" goods on the market, the prices of "ultimate" commodities tend to rise in order to absorb the increased monetary demand. Or again, it depends on whether or not the production of the "ultimate" goods themselves is well-balanced: otherwise the supply of new money coinciding with a disproportionate production and a considerable unsold surplus of any particular class of goods, may lead to a relatively excessive demand for other articles and consequently to higher prices. In the light of these observations it will be interesting to see whether the satisfactory result obtained in the United States is permanent, or merely a transitory phenomenon.

In the case of monetary expansion by means of so-called "productive" issues, and particularly such as are made in respect of "intermediate" production, the flow of new spending-power into the pockets of the public precedes the flow of new goods on to the retail

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<sup>†</sup> For a more detailed discussion of the distinction between these two classes of production, see Appendix "B."

market, so that by the time additional goods are ready for sale there has probably been a rise in the general level of prices, none the less real on the whole because imperceptible in isolated instances. In the case of expansion through "non-productive" issues, no additional goods come to market as a result of the new money, although it may be argued with some plausibility that such issues are actually *less* liable to raise prices than are issues to manufacturers for business purposes. When a manufacturer pays away in wages, salaries and dividends money lent him by his banker, he is at the same time adding to the "costs" he must eventually recover from the public in prices. But a non-productive issue results in no *necessary addition* to "costs"; it only furnishes an *inducement* for prices to rise.

Accordingly it is a matter of general experience that any pronounced increase in the amount of money available for the purchase of goods does tend to raise the general level of prices, although not, perhaps, to a proportionate extent, and that this is so even if the increase originates in an issue of new money intended to stimulate new production. The difference between the effect of productive and non-productive issues, if any, is apparently one of degree only.

(21)

Let us now try to sum up such conclusions as we have been able to reach with regard to the

relation of money to goods, known as "price."

In the first place, we have seen that an increase in monetary demand for goods tends to raise their price, but that this tendency is to a considerable extent mitigated by the increased output consequent upon a fuller utilisation of productive capacity. Next we found that a lessening of monetary demand for goods has a tendency to cause prices to fall, but that this tendency, from a variety of causes, is quickly arrested, and instead of a further lowering of prices there follows a general reduction of output.

But more important in this connection than is usually recognised is the psychological effect of anticipation. If the public anticipate higher prices in the near future they hurry to buy, and the stimulated demand does, in fact, induce the higher prices they fear. If this occurs to any extent, wages have to be adjusted to meet the increased "cost of living," production costs rise, and the effect is cumulative. On the other hand, when people anticipate a lower level of prices, they try to "hang on to their money." This causes a slackness of trade and falling prices until other causes intervene to check the fall.

Briefly, then, we have seen that

- (7) Under the existing economic system, the total prices of goods awaiting buyers will always be at least sufficient to absorb the simultaneous monetary demand for goods.

- (8) Under the existing economic system, any substantial increase or decrease in the amount of money circulating within a community tends to cause a rise or fall in the general level of prices, but seldom to a corresponding extent.
- (9) Under the existing economic system, while the maximum price of an article is "what it will fetch," the minimum price thereof is ultimately determined by the amount of money distributed in respect of its production and distribution: all "costs" must eventually reappear in price.

## CHAPTER IV.

## INDUSTRIAL STAGNATION

The Creation of Leisure—Unrecovered Costs—Capital Issues—"The Flaw in the Price System"—The Effect of Investment—The A + B Theory—Science v. The System.

(22)

Having now seen what the money system is—that it is in essence merely a social mechanism evolved to facilitate the orderly distribution of goods and services—or, more colloquially, a ticket-system giving to the possessors of the tickets claims to share in the material well-being of the community—we are in a position to investigate the problem with which we were faced at the end of our first Chapter. Why is the money at the command of would-be consumers inadequate to the task of enabling them to purchase the goods Industry can offer?

This problem has two phases, one of which concerns the failure of money to reach all the people who require goods, while the second concerns the insufficiency of the money distributed by Industry to individuals to purchase the goods in respect of whose production it passed out of the producing\* into the consuming system.

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\* In order to simplify our argument as far as possible, it will be convenient to divide the Industrial System mentally into two distinct sub-systems, namely the producing system and the consuming system.

The first aspect of the problem is intimately connected with what is generally regarded as the paramount difficulty of our day—Unemployment. Science is constantly replacing manual energy by the labour of machines. The most up-to-date factory is that in which the fewest men are employed in proportion to the output. The ultimate objective of Applied Science—though we are yet a long way from it—is to harness solar energy so effectively that the burden of satisfying man's material wants is removed from the shoulders of men and cast on to machinery. So general is this continual displacement of men by machines that it is almost superfluous to give specific illustrations. Perhaps, however, one or two may be permitted. It is stated, for instance, that the introduction of the use of oil fuel on the Cunard Liners at once reduced the number of stokers required from 951 to 263. Or again, we are told that in 1913 Messrs. Horrocks, Crewdson & Co., Ltd. produced 34,000 miles of cotton-cloth with 330,000 spindles and 6,500 employees. To obtain this output in 1760, 172,000 employees would have been required. The same is true of every modern industrial country.

“The United States could to-day supply each person with the same amount of commodities as he consumed in 1913, and lay off 2,000,000 people from work”†

† President (then Mr.) Herbert Hoover, at the eleventh annual convention of the United States Chambers of Commerce, quoted by the American correspondent of *The Times*.



In this connection one is reminded of the two unemployed workmen who were one day watching a steam navvy at work in the streets of Sheffield. Said Joe to Tom: "If that theer machine wornt thear they'd 'ev 500 men on wi' shovels." "Tha'rt reight, Joa," said his companion, "and if there wornt nca shovels they'd 'ev 50,000 on 'em on wi' salt-spoons!"\*

The modern interpretation of the old saying, spoken in an age of handicraft, that "if a man would not work, neither should he eat" is that unless a man has a claim, direct or indirect, on the money flowing from the producing system to the consuming system in the course of production, he has no claim on the goods and services produced, and, in effect, no right to live. Consequently the great majority of our population is dependent upon employment for its daily bread, although scientific achievement has placed Industry in such a position that it can meet all effective demand, restricted as this is by the amount of money in circulation, without utilising more than a proportion of the human energy available. We thus arrive at the position, ludicrous were it not so tragic, that under the present economic system our ability to produce so much with so little expenditure of human energy results in a great proportion of would-be consumers going without the goods they urgently need, and which in many cases are already produced, simply because

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\* See also Appendix C.

their services are not required for further production.

We are not here concerned with the solution to this "Unemployment" problem: that is a matter which can more conveniently be dealt with in later chapters.† All we need remark here is that Science, in conferring on man possibilities of increased leisure, is adding directly to the difficulty he is experiencing in distributing goods by a mechanism suitable only for an era of handicraft. This conflict, between the scientific principle that machinery should gradually emancipate man from the toil of production and the older acceptance that the only title to life is work, explains the first phase of our problem: it explains why scientific advancement has rendered well-nigh impossible the distribution by existing methods of goods and services to all who need them.

(23)

But there is a second phase of our problem—a phase probably even more fundamental than that just considered. Not only has the increasing application of machinery to the business of production raised a serious difficulty in the way of distributing money through Industry to all who require it, but it has raised another difficulty, one which concerns the inadequacy of the money distributed (regardless of to whom) to purchase the goods produced.

† See especially Chapters IX. and XII.

As we have already seen, the production and distribution of goods and services by the Industrial System are no longer retarded by a lack of the physical ability to supply, but by an inability on the part of would-be consumers to pay for what they would gladly have. The producing system is, in short, willing and waiting to pour goods into the possession of the individuals who together compose the consuming system, if only the consuming system is able, in its turn, to surrender to the producing system, through prices, an equivalent amount of "tickets." The problem is essentially one of accountancy.

It has already been remarked as an axiom of the present economic system that every penny distributed in the course of production must sooner or later be recovered in prices. During the production of goods by Industry there is a continual flow of wages, salaries and dividends from the producing to the consuming system, and at the same time a corresponding addition to the total amount of *costs* which must eventually be reabsorbed by the producing from the consuming system through prices. Similarly, of course, every time a consumer buys and pays for goods produced by Industry there is a flow of money from the consuming to the producing system and a corresponding decrease in the amount of costs necessary to be recovered in this way.

At first sight it would appear, then, that the consumers as a body have always just the

right amount of money to buy, did they so wish, the whole product of Industry. It must, however, be borne in mind that, although every penny leaving the producing for the consuming system adds to the total amount of costs sooner or later to be recovered in prices, it is not equally true to say that every penny that leaves the consuming for the producing system necessarily reduces the amount eventually to be so recovered. Let us by way of illustration assume an isolated and self-contained community in which consumers spend, on the average £10,000 weekly on the goods they require and also invest in industry an average weekly amount of, say, £500. To enable them to do this they must receive from the producing system an average weekly income of at least £10,500. There is thus, *ex hypothesi*, a constant flow of at least £10,500 per week from the producing to the consuming system, and consequently a weekly addition of at least £10,500 to the amount sooner or later to be recovered from the consuming public in prices. On the other hand although each week £10,500 is recovered by the producing system through the two channels of price and investment, the average amount recovered each week *through prices* is only £10,000.

Let us also suppose that at any given moment the total amount of wages, salaries and dividends already distributed in the processes of production, so far as these have not yet been recovered in prices, is £1,000,000. If we

now regard the whole producing system as one gigantic manufacturing concern, so that inter-factory payments, becoming merely interdepartmental, cancel out financially, we see that the average time taken for the recovery through prices of a payment made to an individual consumer in the course of production is approximately 1,000,000 weeks divided by 10,000—that is 100 weeks. The amount of unrecovered disbursements is increasing by £500 per week, so that at the end of a year the total of such costs has grown from £1,000,000 to £1,026,000, and the average period of recovery from 100 to about 102½ weeks. This entails two things. First it means that there are in existence more unrecovered costs—physically represented by unsold goods of every kind—and, secondly, that manufacturers have to wait longer before they can recover in price payments made by them in the course of production.

(24)

In this connection it is interesting to notice the amount of new Capital Issues that have been made in the United Kingdom during the past few years. The total nominal capital of companies registered in the United Kingdom during 1919 amounted, according to the Board of Trade returns, to nearly £413 millions, while the capital of companies registered during 1920 was over £593 millions. Afterwards, however, owing partly to the difficulties induced by these heavy additions to working capital, but still

more to the industrial stagnation resulting from our deflationary financial policy,\* there was a temporary decrease in the annual totals of new capital issues. Nevertheless, the aggregate paid-up capital of all registered companies having a share capital, and believed to be carrying on business, increased, in England and Wales alone, from £2,532 millions at the end of 1918 to £3,863 millions at the end of 1922—over 50 per cent in four years.

The above figures do not, of course, afford an exact measure of the growth of working capital. On the one hand, not all new financial capital represents investment by the public: some at least is issued as fully paid-up shares to promoters and others for real or imaginary services rendered. On the other hand, the figures given do not take account of the huge amount of working capital raised by means of debentures or other forms of mortgage on security of the undertakings concerned, nor do they include the quite considerable sums sunk in businesses which are not registered as companies. These figures do, however, serve to some extent as an indication of the continual growth of industrial organisation and the piling up of overhead charges and unrecovered costs. Unhappily they do not indicate any corresponding increase in the material prosperity of the people.

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\* As to this, see *infra*, Chapter VI.

(25)

For a more detailed examination of the phenomenon of a growing productive capacity unaccompanied by any increase in effective demand for ultimate commodities, the reader is referred to a little book by Mr. P. W. Martin, entitled "*The Flaw in the Price System.*" On page 38, Mr. Martin summarises his argument in these words:—

"So long as the circulating medium of exchange is put to its two uses of (1) inducing production (*i.e.*, paying wages and dividends), and (2) buying the production thus induced, *alternately*, Industry can sell all it makes. But it must be *alternately*. When part of the community's purchasing-power is used, not to buy goods but to add to the working capital, this necessary alternation is not being observed: purchasing-power is being used twice running for the same purpose. The circulating medium has short-circuited, as it were. Money which should have been used to purchase goods is being used, for the second time in succession, to induce further production. As an inevitable consequence more production will be induced than there is purchasing-power available with which to buy it."†

Now although the most obvious way in which consumers as a body gradually lose their power to buy the whole of Industry's production is by the direct investment of money in industrial enterprises, there is also a less obvious way.

†It will be observed that the term "purchasing-power" is somewhat loosely used by Mr. Martin as synonymous with "money." Strictly speaking, money represents spending-power, while purchasing power is the capacity of money to buy, measured in terms of commodities or services.

The retention of profits and their utilisation in extending the capital works of the concerns interested produce a similar result. To maintain the existing relationship of *costs* to *claims*, not only must the whole of the wages and salaries distributed in the course of production be spent on consumption but the whole of the profits also. The diversion of profits from the distribution of dividends to the financing of new production is in effect only a less direct form of investment. Both proceedings augment the total of unrecovered costs.

Again quoting from Mr. Martin's book, the position may be summed up as follows:—

“Every addition to working capital, whether made by appropriating undistributed profits or by borrowing from the community, causes the cost of production of goods to be greater than the purchasing-power in the hands of the community available to buy these goods. Sooner or later the community cannot buy all it has produced at prices sufficient to cover the cost of production, with the result that the whole economic machine is thrown out of gear.”\*

(26)

An objection has been made to the foregoing argument on the ground that although an investor may place his money in some industrial enterprise, yet he seldom, if ever, seeks to withdraw it again. He invests his money in an endeavour to lay Industry under a continuing liability to pay interest to him or his successors, and if he should wish to recover his principal

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\* “*The Flaw in the Price System*,” at pp. 34-35.



he must sell his "security" to some other person for what it will fetch. Similarly, profits utilised to pay for extension of plant become, so to speak, crystallised in the form of additional assets, and are not subsequently distributed in dividends. Therefore, concludes the critic, it is erroneous to say that investment in Industry adds to the burden of unrecovered costs, as it is never intended that the money invested should be recovered.

All this may be quite true, but is it really relevant? The crux of the whole argument is the fact that, so far as the accountancy of Industry is concerned, money received directly from investors, being in due course paid away either to individuals or to other concerns, is automatically charged into cost. The same is true of profits retained to finance extensions. The intention of the investor or of the shareholders is quite immaterial. There has been "lent"—or, if you will, "given"—to Industry certain money which would otherwise have been available for the purchase of goods, and before it again becomes so available it must pass through the productive system leaving behind it a trail of costs.

The effect of this, however, is not immediately perceived, since fresh working capital, being distributed as wages, salaries, and dividends, reappears on the market as an effective backing to the public demand for ultimate commodities, whilst the goods in respect of

which the wages, etc., were paid out have not been developed beyond the intermediate† stage. When, however, Industry eventually seeks to recover these *costs* in the prices charged for ultimate commodities, the shortage of money becomes apparent, and it is then that manufacturers with unsold stocks and better equipment for production, finding no greater effective demand for their goods, have to restrict output or else shut down entirely until their warehouses are cleared. There follows immediately a diminution in the rate of flow of money from the producing system, through wages, salaries and dividends, to the consumers, and there is a corresponding slackening in the effective demand for ultimate commodities. This merely accentuates matters, by automatically increasing the *average time taken to recover costs through prices*, and herein lies one explanation of industrial stagnation.

(27).

Let us now briefly examine this question from a different viewpoint.

“A factory or other productive organisation,” as Major C. H. Douglas has pointed out,\* “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 distribution of purchasing power through the media of wages, salaries and dividends, and on the other hand as a manufactory of prices—

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† cf. Appendix “B.”

\* In “*Credit Power and Democracy*.” 2nd Edition. pp. 21-22.

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 flow of purchasing-power to individuals is represented by A, but since all payments go into price, the rate of flow of price cannot be less than  $A+B$ . Since A will not purchase  $A+B$ , a proportion of the product at least equivalent to B must be distributed by a form of purchasing power not comprised in the descriptions grouped under A."

The exact implication of this obviously true statement has been the subject of much conjecture, and in one or two cases conclusions have been drawn from it which are neither justified by the statement nor consonant with facts. It is at any rate clear that, considering a single factory by itself, it distributes *in wages, salaries and dividends* only sufficient money to buy the fraction of its production represented by  $\frac{A}{A+B}$ . And this is true of all factories—although the actual numerical value of the fraction  $\frac{A}{A+B}$  may vary widely.

Now the whole tendency of industrial progress for the past hundred years or more, and very especially since the opening of the present century, has been to replace human labour as far as possible by machinery. The natural result is that the "B" payments in the average factory have continually tended to

become larger and larger in comparison with the "A" payments, and in consequence  $\frac{A}{A+B}$  is a continually decreasing fraction. Regarding Industry as a whole we thus see that the consuming public has become and is becoming able to make an effective demand for only a progressively smaller proportion of Industry's gross output.

It is true, of course, that individuals want ultimate commodities only, and have no use for intermediate production as such. But the fact remains that in order to distribute to individuals money equivalent to "A," Industry has to carry on a business equal to "A + B," an ever increasing proportion of which is in goods which never reach the consumer at all, but only assist in the production of ultimate commodities. Without the continual manufacture of intermediate products, the individual consumer to-day is unable to obtain from Industry sufficient money to buy the ultimate commodities he requires, although these could very easily be supplied without the erection of another factory or the extension of plant for some time to come.

(28)

We have now glanced at two explanations of what is, after all, a matter of every-day experience. The inadequacy of the present money system to meet the needs of a modern industrial community requires no proof, although

it is necessary for us to understand how this inadequacy comes about before we can offer any suggestions as to how to overcome it—before we can even criticise other people's suggestions intelligently. Quite a number of explanations have been advanced in various quarters, supplementary rather than contradictory, but the ones we have already examined are probably the most important.

It should not, however, be inferred that investment in Industry (either directly, or indirectly through the diversion of profits from the payment of dividends to the extension of plant) is necessarily an evil. If Science is to make progress in its work of relieving man from the drudgery of uncongenial toil, new processes must be financed and extension of mechanical appliances must take place. Industrial difficulties do not arise from the investment of money in productive enterprises; they are due to a money system under which such investment, far from being an unqualified assistance to Industry, acts in many ways as a hindrance.

In the course of the foregoing arguments the quantity of money circulating within the community has been assumed to remain constant. This assumption does not affect the validity of the arguments advanced although it is, of course, necessary to consider to what extent circumstances are modified by variations in the amount of money in circulation. This,

however, is a matter which needs and will receive, separate consideration.†

We may sum up the present Chapter, then, as follows :—

(10) Scientific progress, in conflict with the present economic system, has given us our problem of Unemployment—involuntary, unpaid leisure.

(11) Under the present economic system, so long as the amount of money in circulation remains constant, every addition to working capital renders it increasingly difficult for the modern industrial community to absorb all its own production.

(12) As a result of the increasing application of Science to Industry, consumers to-day are unable to purchase more than a continually decreasing fraction of industrial output. In order, therefore, to maintain the existing level of consumption, an altogether unnecessary quantity of non-consumable goods must also be produced.

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† See Section 32, *infra*.

## CHAPTER V.

## PALLIATIVES.

Insolvencies—Writing down of Assets—Capital Reduction—Bank Credit Issues—Export Trade—War—The Inversion of Science.

(29)

In the light of the analysis of the last chapter it is clear that if nothing occurred to relieve the situation our whole economic system would long ago have proved itself unworkable. The fact that Industry still carries on, however imperfectly, is due to the presence of palliatives. One such palliative, though a relatively unimportant one, is found in the long tale of bankruptcies, capital reductions and company liquidations which act as a kind of vaccination of the system—an irritating and painful protection against a greater evil. Every time a manufacturer becomes insolvent or a company reduces its capital or goes into liquidation, the result is a wiping out of some at least of the costs which normally would have had to be recovered through prices. There results, in fact, a breach of one of the fundamental axioms of sound business. In such cases only a proportion of the financial costs of production are recovered in price, and the amount that the production-cost is in excess of the price realised operates as a small set-off against the continuous

piling up of unrecovered costs—a slight mitigation of what we may term the “top-heaviness” of the market.

According to the returns furnished by the Board of Trade with regard to Bankruptcies, Deeds of Arrangement and registered Assignments, etc., the number of such cases recorded in England and Wales between 1908 and 1914 averaged 6,627 annually. The annual average of the liabilities involved amounted to approximately £9,912,000 as against £4,212,000 assets, shewing a yearly excess of liabilities over assets of about £5,700,000. From 1915 to 1920, the period of so-called “inflation,” the number of such cases only averaged 2,015 annually, while the amount of the liabilities concerned fell to a yearly average of £3,917,000 compared with assets averaging £1,784,000, thus giving an annual excess of only £2,133,000. For the years of intensest “deflation,” 1921 and 1922, the average amounts involved in insolvencies were, liabilities £23,403,000, assets £5,700,000, excess £17,703,000, while the average number of cases concerned rose to 5,710. The years 1923 to 1926 were not so much years of active deflation as of the stabilisation of monetary conditions at the level then attained. The average number of insolvencies during those four years was 6,535 annually, with liabilities averaging £15,469,000 and assets averaging £4,457,000, giving a net annual excess of liabilities amounting to £11,012,000. Such



portion of these yearly excesses as was due to the failure of manufacturers and traders represents what almost amounts to a bonus to consumers.

(30)

A very similar effect results when a company goes into liquidation or when it reorganises by reducing its capital.

Reduction of capital on the part of a company presupposes a previous "writing down" of assets. If a company finds that it has more plant and machinery than it can properly utilise, it may take measures to dispose of the surplus and "write down" its assets accordingly. Or if, owing to a variety of reasons, the book value of its assets as shewn on its balance-sheet is in excess of their realisable value, it may decide to "write down" its assets to a truer figure.

The writing down of assets is often merely an adjustment of figures to meet facts. But it has a further effect. If we assume that a company writes down its assets from £1,000,000 to £600,000, the bulk of this difference will probably be written off machinery and plant. On a 10 per cent. basis its plant charge will now be about £40,000 a year less, which means that its products can be produced and sold at a lower figure. As far as the general public is concerned it is akin to a reduction of £400,000 in the top-heaviness of the market.

There are, of course, other reasons for writing down assets. A company may decide that certain debts due to it are "bad" and should be written off as worthless. Or it may resolve to return to share-holders out of its reserve of accumulated profits a proportion of the amount paid up on their shares. Both these cases involve some benefit to the community. The one means so much less "loss" to be recouped in enhanced prices—the other means a direct increase in the amount of money available for spending on ultimate commodities.

(31)

When a company writes down the book-value of its assets, it must also in its balance sheet reduce the book-value of its liabilities to a similar extent. "Reduction of capital" is usually effected by decreasing the nominal value of shares, and it may be of interest and assistance to readers to have before them a concrete example of the reduction of capital by a large company. In Appendix D is given, in the form of a comparative table, the original and the revised Balance Sheets of Messrs. Vickers Limited as at the 31st December, 1924, shewing the position before and after the reduction of issued capital from £20,679,290 to £12,468,938. It will be noticed that the £1 Ordinary Shares were written down to 6/8 each, while the whole of the Reserve of £3,600,000 was written off.

This precedent has been widely followed. About the same time as the reorganisation of Messrs. Vickers' capital took place, the Dunlop Rubber Company Ltd. wrote off no less than £10,527,542 from its paid-up capital of £20,000,000. More recently the capital of the Austin Motor Company Ltd. has been reduced from £5,000,000 to under £4,000,000, that of the Marconi Company from £4,000,000 to £2,374,954, and that of Lipton's Limited from £2,850,000 to £1,022,500. Recently, too, Baldwin's Limited, the big iron and steel enterprise, reduced its authorised capital from £8,000,000 to £4,213,568.

Large scale reductions of capital have of late become almost a commonplace in Industry. The latest and largest of these was that of Armstrong, Whitworth & Co., Ltd., in which no less than £14,117,500 was written off. The effect of this scheme of reconstruction was, briefly, to cancel Debentures to the value of £4,872,000; to transfer to a consolidated Trust Company securities and cash to the value of £5,250,000 in satisfaction of other Debentures nominally worth £6,092,000; to reduce the nominal value of issued capital from £11,012,500 to £3,863,000 and to write off from reserve and other sources £1,254,000. The most striking feature about the whole scheme is that the cancelled Debentures were those held by the Bank of England, who received instead 4,700,000 "B" Ordinary Shares of 10/- each nominal

value—a fact not without significance to students of post-war banking policy.

Turning to company liquidations, we find that from 1908 to 1914 there were about 2,000 annually. From 1915 to 1919 the number fell to a yearly average of 1,450, but from 1920 to 1922 the average rose to approximately 3,000 a year.

Some idea of the amount “lost” in capital reductions and company liquidations may be gathered from the fact that since the Companies’ Act was passed in 1862 218,938 companies had been registered down to the end of 1926, with an aggregate nominal capital of £9,500 millions. At the end of 1926, 92,320 companies were believed to be carrying on business, with a paid-up capital of £4,250 millions. What had become of the missing £5,250 millions? Some of it had no doubt been repaid to shareholders, but by far the greater part of it had been “lost.”

It is, of course, impossible to shew by figures the exact extent of the influence of insolvencies, capital reductions and company liquidations on existing market-topheaviness. We can only remark how each of them affords its small quota of relief, so that, paradoxical as it may seem, it is in some measure due to the misfortunes of these individuals and concerns that Industry as a whole is able to carry on at all.

(32)

The figures just given serve incidentally as one more illustration of the effect of financial

policy on commercial and industrial prosperity. During the war-time period of intensive monetary expansion there was less involved in bankruptcies and there were fewer liquidations of companies than under pre-war financial conditions. But pre-war conditions were in their turn accompanied by far less insolvency and far fewer capital reductions and company liquidations than was the post-war policy of monetary deflation. And this brings us to a consideration of the effect of the expansion or contraction of money within a community upon the prevailing market-topheaviness.

The ratio existing between the aggregate spending power of potential consumers and the total of unrecovered costs (not all of which, be it noted, are at any instant attached in price to *ultimate* goods) can be prevented from falling, if desired, by the introduction of new money into the industrial system. A greater quantity of money flowing from the producing to the consuming system and back again reduces the relative (though not the absolute) disparity between effective demand and unrecovered costs, thus tending to accelerate the recovery of costs through prices.\*

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\* To illustrate:—If through a tank containing 1,000 gallons water flows at the rate of 100 gallons per hour, the average time taken by any drop to pass through the tank is 10 hours; but if the flow be increased to 125 gallons per hour the time is reduced to eight hours. Similarly an increased flow of money between producers and consumers reduces the average length of time required to recover through prices the money distributed to individuals in the course of production.

And we have already seen that the process of creating new money, whether it be printed paper or bank-credit, is really one of the simplest in the world for those in a position to effect it.

Thus we arrive at our second palliative, a far more important one, *viz.*, the issue of fresh money by the banks to producers. The issue of credit for consumption has, as yet, little or no place in our financial system. New spending power almost invariably enters the industrial system at the producing end, and only reaches the consumers indirectly in payment for work done. Such additional spending-power does, at least temporarily, increase the effective demand of the consumers for commodities, and although every penny passing from the producing to the consuming system has ultimately to be recovered in price, the improved *ratio* of spending-power to unrecovered costs affords a considerable measure of relief to the existing market-topheaviness.†

Any benefit that may accrue to the Community by the financing of new production with freshly created credit-money is, of course, entirely neutralised by the repayment of the money to the bankers and the consequent cancellation of the additional spending power. Indeed, if, as frequently happens, the money to make the repayment is obtained from members of the public, the effect is much the same

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† As to the effect upon the general price-level, see Section 20, *Supra*.

as if potential consumers had provided it in the first place. Market-topheaviness is correspondingly increased.

And so we see that by the continual issue of new money the top heaviness of the market can be kept from increasing; unfortunately there is, under the present financial system, a very definite limit to the amount of money that can be put into circulation—a limit far below the real requirements of Industry.\*

(33)

A third palliative is export. By export we do not here mean the simple exchange of home-products for the goods it is desired to import from abroad, but rather the dumping on to other countries of goods which (or the equivalent of which) members of the exporting community are unable to purchase for themselves. Every industrial community to-day strives to obtain a "favourable balance of trade," *i.e.*, to export a greater value of goods than it receives from other countries. Such is the unselfishness engendered by the present system.

In his address to the American Bankers' Association, the Rt. Hon. Reginald McKenna emphasised the economic necessity for a manufacturing nation to export in order to preserve its industrial system from collapse. Speaking of home affairs, he said:—

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\* See Sections 52 and 53, *Infra*,

"Year by year England produced more than she could either consume herself or could exchange for the products of other nations, and she could not obtain a market for her surplus unless she gave the purchaser a long credit. British factories and workshops were kept in good employment, but it was a condition of their prosperity that a part of their output should be disposed of in this way."

It is not, we see, merely a matter of exchanging surplus stocks for the produce of other lands. If consumers have not sufficient money to buy all that is produced at home, so that manufacturers are therefore driven to dispose of the surplus abroad, neither can they afford to purchase the imports received in exchange for that surplus. Indeed, imports in return are rather in the nature of an embarrassment from which most countries seek to "protect" themselves by means of tariffs. A curious illustration of the lengths to which industrial nations will sometimes go in order to prevent the entry of goods from abroad was given by Sir Hallewell Rogers, Chairman of the B.S.A. Company, at the Ordinary General Meeting held in April, 1923.

"The United States Government had . . . a very large number of commercial vehicles on the field of war. . . . They promptly put a duty of 90 per cent on the reimportation of these vehicles into the United States. This meant that not a single one could be reimported, and that those who required vehicles of that description in the United States had to buy new ones."



Again, international trade, as we shall see later, is a form of barter, in which the goods exported by any country are, in the ultimate analysis, paid for by the goods it imports. Theoretically, at any rate, trade movements are balanced from time to time by transfers of a standard valuable commodity, gold, and it is thus the country exporting a surplus of non-gold commodities which is in the strongest position to attract gold within its borders. But although the gold is received as a commodity it becomes under our present money system immediately available as the basis of fresh monetary expansion, while the country losing the gold has normally to contract its money supplies. Thus we arrive at a second reason why each industrial country is to-day striving after "a favourable balance of trade," either by securing fresh markets abroad or by excluding foreign production from its own markets.

But if, under the present system, it is an economic necessity for Great Britain to obtain an excess in value of non-gold exports over imports (including in these terms exports and imports not only of goods but of services), so it is for the United States, for Germany and Japan. Every year, as Science progresses, the surplus for export increases. Every year agricultural nations tend to become industrialised, and available markets to become fewer. Export may be a temporary palliative, but it is a highly dangerous one. The struggle for markets is

the most active cause of international friction.

"Peace? Why, my fellow-citizens, is there any man here or any woman—let me say, is there any child—who does not know that the seed of war in the modern world is industrial and commercial rivalry? The War was a commercial and industrial war. It was not a political war. The reason that the war we have just finished took place was that Germany was afraid her commercial rivals were going to get the better of her; and the reason why some of the nations went into the war against Germany was that they thought that Germany would get the commercial advantage of them. The seed of the jealousy, the seed of the deep-rooted hatred, was hot, successful, commercial and industrial rivalry."\*

(34)

And so we come to what is not only an inevitable consequence of the present system, but also its main palliative—war. For in time of war financial policy has to bow to national necessity. In the face of overwhelming danger, the limitations imposed by orthodox banking theory appear trivial, almost indecent. If munitions are to be made, the question is not asked: "Where is the money to come from?" The money is created by a stroke of the pen. It is not the creation of money that is difficult: it is the proper use and control of money that present almost insurmountable difficulties to the orthodox economist.

War, then, is often the cause of a great expansion of spending power. Prices rise, it is true, but the topheaviness of the market dis-

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\* President Wilson, at St. Louis, Sept., 1919.

appears. Most of the new production in respect of which the money is issued never comes onto the market—it is distributed gratis to the enemy—yet even the small proportion consisting of goods needed by the people keeps them in comparative comfort, as they have the wherewithal to buy. Wartime brings to millions a prosperity unknown in days of peace, because in time of war the canons of sound finance are abandoned before the bombing planes of the enemy.

“War, appalling orgy of waste and misery as every sane person must admit it to be, is not the greatest of all evils, although it may quite conceivably be a great enough evil to destroy this civilisation. A greater evil would be the unchecked operation in a helpless world of those causes of which war is an effect. That is exactly where what is called pacifism makes its cardinal error—it is so concerned with the “rash” on the patient that it will go any length to suppress it. Not that way lies a cure. The disease lies much deeper than the skin—it is concerned with the vital processes of the body politic.”\*

Recurring wars, then, are not merely the inevitable consequence of the present economic system—they alone make the present system in any way possible or endurable. For war is the great consumer, and during times of international strife the problem of consumption is solved.

(35)

The feverish industrial activity which, limited in its useful application by the lack

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\* C. H. Douglas, in “*Control and Distribution of Production.*” p. 133.

of money in the possession of would-be consumers, leads inevitably to war, also prepares the way for it. The pursuits of peace are not far removed from the preparations for strife.

“A technical detail at the end of a long process may decide whether the finished product shall be available for destruction or construction. The so-called ‘fixation of nitrogen’ process, whereby nitrates are manufactured from the air, was primarily developed for the production of fertilisers for agriculture, but serves equally for the manufacture of explosives. Indeed without this process developed according to her special needs, Germany, cut off from external supplies of nitrates, could hardly have waged war for three months. Poison gas is of the same category, being the war product from the materials used in time of peace for the manufacture of dyes, drugs and fine chemicals.”†

So are the gifts of Science turned by man to his own destruction, simply because under the prevailing economic system a modern industrial community is unable, by ordinary peace methods, to absorb its whole output. The bitter irony of the situation is beyond the emphasis of words.

Our conclusions, then, are as follows:—

(13) The present economic system only endures by reason of palliatives, prominent among which are insolvencies, bank creations of credit, export and war.

(14) Of these, insolvencies contravene the principle that all costs must enter price: bank credit issues not only have a tendency to raise

† Professor Soddy, in “*The Inversion of Science.*”

prices, but also are limited in amount by considerations of "sound finance": the struggle for dumping grounds necessitated by a policy of export leads directly to our last palliative, war.

(15) War is an inevitable consequence of the present system; it is also the most expeditious method of disposing of unsold stocks.

## CHAPTER VI.

### THE FAILURE OF DEMOCRACY.

What is Democracy?—The Problem of Poverty—  
Deflation and Industrial Stagnation—The Government  
and the City—Our Real Rulers—An Anti-Social System.

(36)

An assertion that democracy as a form of government has failed must not be taken as an admission that autocracy, theocracy, monarchy oligarchy, hierarchy, aristocracy, plutocracy or any other -ocracy or -archy is to be preferred. It is merely a bald statement that democracy as modern Western civilisation knows it has proved inadequate to achieve its objects.

Let us be quite clear in our own minds as to what we mean when we speak of "democracy," and what are the characteristics of the type of government called "democratic." The most famous of all descriptions of democracy is undoubtedly that of Abraham Lincoln—"Government of the people, by the people, for the people." This well-rounded phrase, although pleasing to the ear, is somewhat unsatisfactory as a definition. For instance, what exactly does "government by the people" mean? It clearly does not mean government by *all* the people, nor even government by the majority of the people, neither of which would amount to anything more

than government by nobody—anarchy. Even the most primitive community needs some one person or some comparatively small class of persons to govern it, to maintain order, to proclaim its laws, to direct its energies to common ends, or to represent it in its dealings with other communities.

The essence of government “on democratic lines” as exemplified in Great Britain or the United States of America is that the individual members of the community are, to a greater or less extent, offered recurring opportunities to select those who, at any rate nominally, bear rule over them, and who promise to carry out some policy that appeals to the majority of the electors. The success or failure of such a form of government may be estimated, first, by the extent to which the elected of the people are the real rulers of the people; secondly, by the extent to which the will of the majority of the people can be said to prevail; thirdly, by the extent to which it ensures that the community as a whole partakes in the wonderful material prosperity that applied science has put within its reach.

(37)

With regard to this last-mentioned test of the success or failure of “democratic” government, it is beyond question that at the present day all governments are helplessly and hopelessly trifling with the problem of Poverty. It is really very remarkable that amidst an

almost inconceivable potentiality of plenty such a thing as poverty exists. To quote yet again from Professor Soddy:—

“None of the world’s real problems centre to-day around the mere provision of wealth. The difficulties arise rather in getting rid of even a small part of what can be made, without fighting for the privilege of either making or selling it. But to people who think not in terms of energy and human endeavour, but in terms of money-tokens, there seems to be nothing incongruous in the continuance of the acute economic suffering into which Europe has been plunged, nor any evidence of failure in the most elementary function of government in the spectacle of unemployment and poverty *at one and the same time.*”\*

Though not alone in its failure to solve the problem of poverty, democracy as a form of government by this failure stands condemned.

Again, can it honestly be said that in this “democratic” country of ours effect is really given to the will of the people? The nation, for example, demands a better standard of education. Such is the policy approved at the polls. Mr. H. A. L. Fisher, late President of the Board of Education, attempted to carry out this very laudable policy. He failed, not because of any physical obstacles, but because, to quote his own words, “*the grim goddess of Finance exercised, as she always must, an inexorable power.*” It is not sufficient for a government to have high educational ideals. The problem that is apparently fated to defeat such

\* “*Wealth, Virtual Wealth and Debt,*” at page 58.



aspirations is not "where shall we find the necessary teachers?" but "where is the money to come from?" No government can pass beyond the strictly circumscribed limits imposed upon it by considerations of "sound finance."

(38)

In a previous chapter we saw how the banking system possesses the power of expanding or contracting the quantity of money circulating within the community. This power is systematically exercised. The deliberate expansion or contraction of money by the banks in accordance with some defined policy is a regular feature of the modern economic system.

During the recent trade slump Professor Gustav Cassel wrote as follows:—

"The downward movement of prices has not, as is sometimes assumed, been merely a spontaneous result of forces beyond our control. It is entirely the result of a policy deliberately framed with a view to bringing down prices and giving a higher value to the monetary unit."

And he added these words:—

"A prolonged fall of prices must necessarily have an extremely disturbing effect upon production and trade."

The industrial stagnation of the past few years has, according to this authority, been the result, not of some natural law, but of a policy deliberately framed.

Speaking in January, 1923, Mr. McKenna told us how this policy was carried out, and with what result :—

“ The bank rate, which had been raised to 7 per cent in 1920 remained at that level for a year. . . . Already by the Autumn of 1920 trade shewed such a serious decline that we might have expected a lower rate, but the exigencies of deflationary policy demanded a continuance of dear money. Unhappily employment decreased month by month as this policy was enforced. In April, 1920, the records of the exchanges shewed that we had 348,000 unemployed : by March, 1921, the total of unemployed had risen to 1,506,000.”

And in another part of the same speech Mr. McKenna explained the close interrelation between deflationary policy and industrial stagnation.

“ If purchasing-power declines, then, until there is a change in the amount of purchaseable commodities or in the rate at which purchasing-power is exercised, prices will fall. But when prices begin to fall, manufacturers and traders who have bought raw materials and stock at the higher level are faced with a loss and compelled to restrict their operations. Fewer orders are given ; trade declines and unemployment grows. Thus the immediate effect of a reduced purchasing power is diminished trade and increased unemployment.”

A fall in prices deliberately brought about by restriction of money supplies on the part of the banking system has, as Mr. McKenna has elsewhere been at pains to point out, another evil consequence.

"If prices were to go back to the pre-war level, no Chancellor could balance his budget. . . . If we get back to 1913 prices and values of money, we shall get back to the 1913 national income and yield of Income Tax, on which basis a rate of over 8/- in the pound would be required to meet the annual charge for debt alone. Lower prices increase the real burden of fixed charges on the national revenue."†

The complementary illustration is afforded by the way in which America, by a reversal of her deflationary policy, absorbed her four million unemployed. After the Great War, financiers in the United States, like those in this country, decided on a deflationary policy, but there it was applied even more stringently than here. The result was that, although possessing the greater part of the world's gold, America in 1920 found herself with an unemployment problem even more severe than that which was embarrassing our own nation. But American Finance subsequently saw fit to revise its policy, and—

"since the Autumn of 1921 there has been a great expansion in bank deposits in the United States. Using the latest available figures for purposes of comparison, it will be found that the average total deposits of the reporting member banks of the Federal Reserve system rose from £2,860 millions for the twelve months ending November 1922 to £3,751 millions for 1926, an addition of not less than £891 millions. Taking similar average figures for this country, we find that over the same period the total deposits of the ten London clearing banks fell from £1,783 millions

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† Midland Bank Shareholders' Meeting, January, 1921.

to £1,661 millions, a decline of £122 millions. Thus while there was an increase of £891 millions in the United States, there was a decrease of £122 millions in this country.”\*

As a result, trade in the United States boomed, the unemployed were virtually absorbed and to-day the American worker has a far higher standard of existence than his fellow workmen over here. Perhaps more important still, American industry is able to look to the American home market to absorb the bulk of its produce, with the two-fold result that the benefit of the production enures to the home consumer and not to the foreigner, while at the same time there is a corresponding lessening of the economic necessity to penetrate into the jealously guarded markets of rival powers.

## 39

Being now in a position to realise the extent to which a modern industrial community depends for its well-being on a wise and disinterested money policy, we see that the real rulers of any country are those who hold the power of money issue and money restriction. By way of illustration we have examined the operation of two opposite financial policies, each deliberately framed and deliberately carried out. The merits or demerits of the policies do not at this juncture concern us: what is of more moment is the answer to the question, “Who authorised these policies?” You were not asked, nor was I.

\* Rt. Hon. R. McKenna, January, 1927.

The matter was never submitted to the people of the "democratic" countries concerned, although monetary policy affects the prosperity of a country and the happiness of its citizens far more nearly than many of the so-called "vital issues" upon which the electors are consulted with becoming solemnity. In things that matter most the approval of the majority is not sought; such issues are never put before the people. In this way, too, modern Democracy has proved a failure.

Cases are, however, conceivable in which national necessity might prompt the Government to question a monetary policy which our financial rulers wished to adopt. What is the position then? The position as Mr. Gladstone found it may be summarised in his own words:

"From the time I took office as Chancellor I began to learn that the State held, in the face of the Bank and the City, an essentially false position as to finance. . . . The hinge of the whole situation was this: the Government itself was not to be a substantive power in matters of finance, but was to leave the Money Power supreme and unquestioned. In the conditions of that situation I was reluctant to acquiesce, and I began to fight against it by financial self-assertion from the first. . . . I was tenaciously opposed by the governor and deputy governor of the Bank, who had seats in Parliament, and I had the City for an antagonist on almost every occasion."†

Open opposition can, however, be openly met. More important is the fact that a

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† Morley's "*Life of Gladstone.*"

Government is rarely composed of experts ; it usually consists of non-permanent " ministers " who, during their term of office, look to experts to guide them. Especially is this so with regard to monetary policy, in which Governments are advised by those who are recognised as " experts " in finance, and who have won such recognition by strict adherence to orthodoxy. For instance, the deflationary policy to which allusion has just been made was the outcome of the recommendations of the currency committee presided over by Lord Cunliffe, Chairman of the Bank of England. This committee, be it noted, was, with one exception, composed exclusively of bankers. The exception was a well-known gold-standard economist.

Lord Melchett, then Sir Alfred Mond, speaking in the House of Commons on 6th July, 1925, made the following pertinent observation :

" The President of the Board of Trade has been boasting that our national credit is extraordinarily good, but what is the use of that ? If you are not going to use your national credit in a way that will help the unemployed, you will not be any better off than you were before. There seems now a growing tendency to regard all these questions from the point of view of the bankers of the city of London."

And so long as this harmonious state of affairs continues there is little likelihood of any policy being pursued in this or any other country which is in any way inimicable to financial interests.

(40)

Bank-amalgamations and the consequent concentration of credit-control are only natural steps in the progressive centralisation of financial power.

"In Jevons' time there were some 267 private and 121 joint-stock banks in England and Wales. In 1880 this number had fallen to some 300. Centralisation has progressed at greater and greater speed. Early this century the number had fallen to fifty. . . . In 1917 there were five banking fusions. In 1918 there were eleven. In 1919 there were ten. To-day (1921) there are only five big banks and nine smaller banks."\*

But this is by no means the end of the story.

"Even among the five big banks (Barclays, Lloyds, Midland, National Provincial and Westminster) there are working understandings and agreements. The Baring smash led to the formation of a Banking Committee representing the big joint-stock banks, which meets regularly to determine general policy. The Big Five have also joint interests in certain colonial banks and the tendency to fusion is still working to produce one single trust in all British Banking."\*

President Wilson, speaking in 1916 of conditions in that "democratic" country the United States of America, declared that—

"A great industrial nation is controlled by its system of credit—our system of credit is concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men who . . . chill and check and destroy genuine economic freedom."

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\* C. P. Isaacs, in "*The Menace of Money-Power*," at pp. 209-210.

"Just think what this means," wrote Major Douglas†  
"Two or three great groups of banks and issuing houses, controlled by men . . . not elected and not subject to dismissal, able to set at nought the plans of Governments, producing nothing, yet controlling all production."

What, then, is this "democracy" of ours but a pitiful pretence? The life blood of our industrial civilisation is regulated in its flow in the interests of a system, by men who regard goods and services as a means to money, and money itself as a breeder of more money. In January, 1924, Mr. McKenna declared that

"It is only by wise action on the part of the Bank of England that the restriction on trade can be removed—"  
not, be it observed, by the industry and application of the artisan, not by the labours of our legislators, but only by the condescension of the credit-controllers to desist from their present policy.

(41)

To sum up. Democracy as known to modern western civilisation has failed to tackle the problem of poverty. It toys with palliatives—it seeks to provide work when the people cry for goods—but the fact remains that, in the midst of an ever-increasing possibility of plenty, the majority of the community struggle along at a bare subsistence level. Political Democracy has also failed to ensure that the persons chosen by popular vote shall be the

† In "*Credit Power and Democracy*," at pp. 125-126.



real rulers of the people. Ultimate control rests, not with the elected Government, but with a non-representative group of men who direct the issue and restriction of money. And finally, although in minor issues and matters of mere administration the will of the majority as expressed at the polls may admittedly prevail, yet in graver matters—such as the preservation of an inadequate money system—Finance has the last word. In short, Democracy has failed because it is not economic.

Financiers may be, and frequently are, most estimable persons, although the system they represent and control is predominantly anti-social. The Financier, however, sees in the system *the* ultimate good. If the good of the country is enhanced by a policy that fits in with his ideas of what benefits the system, so much the better. If not, so much the worse. The working of the Financial Mind is illustrated only too well by a passage in Professor Kemmerer's book on "*High Prices and Inflation*," quoted by Mr. E. M. H. Lloyd.\* Professor Kemmerer, whose book was published in 1920, then wrote as follows:—

"The hardships and the resulting political difficulties of carrying through a programme of price level reduction through deflation are so serious that we should enter upon such a programme, if at all, only after careful deliberation and under the pressure of strong

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\* In "*Stabilisation*," at pages 40 and 41.

reasons. Are there strong reasons why we should deliberately suffer these hardships and adopt a programme of deflation? I believe there are. . . . The strongest reason for deflation is that our present gold base is altogether inadequate safely to support the present paper money and deposit currency circulation. . . . The safety and security of our economic organisation demand that there be a reasonable relationship between the size of the metallic base and the size of the superstructure of circulating media it supports."

Other people's hardships can often be borne with amazing fortitude. Financial considerations must always prevail—and a system has no soul to save.

Our three further propositions are, then, as follows:—

(16) The prosperity of a modern industrial community is dependent on a wise and disinterested financial policy.

(17) Control of financial policy becomes year by year more concentrated in the hands of men who are non-elected and not subject to dismissal—a plutocratic hierarchy whose Diety is a system.

(18) Political democracy has failed because it is not economic.

## CHAPTER VII.

### THE RETURN TO THE GOLD STANDARD.

Deflation a Creditor's policy—The Gold-Basis—Foreign Exchanges—The Gold Standard—Difficulties of Stabilisation through Deflation—"Dollar Parity"—The Internationality of Finance—The Currency and Bank Notes Act, 1928.

(42)

Those responsible for the deflationary financial policy pursued in Great Britain from the middle of 1920 onwards were not unaware that this policy would lead to a great stagnation of Industry, a considerable addition to the numbers of our unemployed, and an increase in the real burden of the National Debt and consequently of taxation. Why, then, was such a policy adopted?

There are at least three explanations that can be offered for the adoption of a policy of monetary contraction. First of all, there are certain persons who stand to reap material advantages as the result of such a policy. Let us, as an example, take the case of a man who invested money in  $2\frac{1}{2}$  per cent. Consols in the middle of 1920. At that time the purchasing-power or "value" of the sovereign, according to the official "Cost of Living Index" of the

Ministry of Labour,\* was only two-fifths of what it was in the year 1914, and the market price of Consols was round about 47. What the investor did in effect was to divest himself temporarily of a certain amount of purchasing power and lend it to the Government. If he retained his investment until the end of 1921, when Consols stood at or about 50, he would then be in a position to obtain £50 for every £47 invested. And the appropriate cost-of-living index figure (192) shews that every pound he then received would buy  $\frac{250}{192}$  times as much as a pound would buy in May, 1920. Accordingly the amount of purchasing-power that he would recover would be over 38 per cent. more than the amount he had lent; and this in addition to a steady rate of interest all the while the loan was outstanding.

A bonus of 38 per cent. is not a bad return for waiting eighteen months. Supposing, however, that the investor waited another year and sold out at the end of 1922. Consols had by then risen to 56 and the official cost-of-living figure shewed the pound to have appreciated

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\* Fluctuations in the purchasing-power of the pound have been officially calculated and expressed in series of index figures, of which the best-known are the index figures relating to wholesale prices published by the Board of Trade and the figures published by the Ministry of Labour to indicate variations in the "cost of living." Taking 100 to represent the "cost of living" in July, 1914, the corresponding figure for May, 1920, was 250. This means that (so far as the man in the street was concerned) the value of the sovereign in May, 1920, was  $\frac{100}{250}$  or two-fifths of the value of the sovereign in 1914.

to about 55 per cent. of its 1914 value. Then when our investor sold he would receive in purchasing power over 65 per cent. more than he had invested! And as prices fell and the value of Consols rose (enhanced by the uncertainty and stagnation in the industrial world due to a prolonged period of deflation), the premium in purchasing-power would increase, until, if it were possible by means of monetary contraction to force prices down to the 1914 level, it would probably approximate to one of at least 250 per cent.

The foregoing provides a simple illustration of how deflation as a policy favours the creditor at the expense of the debtor. And when it is realised that the banks and bankers are large holders—either directly or by way of security—of Government Stock, it explains why, in the quarters that matter, a policy of deflation is regarded with something more than equanimity. As Mr. J. M. Keynes has told us,

“Deflation . . . involves a transference of wealth from the rest of the community to the *rentier* class and to all holders of titles to money. In particular it involves a transference from all borrowers . . . to lenders.”

Lord Milner, himself a banker, was not blind to this aspect of the matter when he stated in his “*Problems of the Hour*” that

“Just as productive industry welcomes rising prices, the moneyed interests must always be in favour of falling prices, because they render its own wares—money—more valuable.”

(43)

A second reason why British Finance adopted a policy of monetary deflation was that, without such a policy as a preliminary, no return to a gold basis for our money system was possible. This statement leads naturally to two questions, (1) What is meant by the term "gold basis"? and (2) Why did Finance consider a return to a gold basis so desirable?

It is rather easier to talk vaguely about "the gold basis" than to define it, but very roughly it may be explained as follows. If all the non-gold money circulating within a community is by law exchangeable for gold on demand, then that community's money system operates on what is known as a gold basis. For instance, a bank is bound by law to pay out to its depositors legal tender upon demand. In pre-war days this meant payment in either gold or Bank of England Notes. The Bank of England was in its turn bound to give gold in exchange for its own notes if demanded, so that in this way a person could normally be certain of obtaining gold for his credit-tokens if he so wanted. Our money system was therefore said to be on a gold basis, and it will readily be appreciated that the total amount of money circulating within the country is, in these circumstances, directly influenced by the total amount of gold therein, both tending to increase or diminish together.

Gold, when the world's money is on a gold basis, represents power in the hands of those

able to control it†. Small wonder, then, that the possessors of the world's gold were anxious to entice, and where necessary to compel, the nations of the world to return to a system which renders gold a paramount necessity. Small wonder that they sedulously cultivated popular belief that gold in some way embodies peculiar and almost supernatural virtues as a title to goods and services. Destroy that fiction, and the immense power founded on gold-monopoly is destroyed also.

But, it may be asked, how does a policy of deflation tend to bring about a return to a gold-basis? This can probably be best explained by an example. Take the case of a country in which the amount of gold can only, on sound financial lines, support a total volume of money (mainly, of course, bank-credit) of £1,000,000,000. If various exigencies—perhaps a war—render it imperative to raise the total volume of money to £2,000,000,000, then there is not sufficient gold to meet the current demands of depositors. If depositors cannot get legal tender for their deposits they lose confidence, and as the foundation of the present banking system rests upon the confidence of the public, the whole structure totters. To prevent collapse other legal tender has to be issued to supplement the gold. This is usually paper money issued under Government regulation. Gradu-

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† See Appendix E.

ally this paper money tends to supersede gold as currency, and the gold is hoarded in the vaults of the Banking Houses. We then find that the volume of money is regulated more by the amount of paper money and less by the amount of gold in circulation. Paper is an easily replaceable substance, and the possibility of cornering supplies disappears.

The first step, then, in the restoration of the genuine gold basis is the reduction of the total quantity of money in circulation, or else an increase in the amount of gold. Either of these permits the gradual withdrawal of paper-money and a corresponding increase in the power of those able to direct the movements of gold.

(44)

The primary reason, however, for this policy of monetary deflation was expressed by Mr. McKenna in January, 1923, when he stated that such a policy "raises the exchange value of the pound sterling in relation to the dollar and hastens our return to the Gold Standard."

The subject of "foreign exchanges" is surrounded in the public imagination by a great deal of mystery, although in truth the essentials are extremely simple. As there is no international money-unit, there is a highly-specialised system whereby the money-units of different countries can be readily exchanged. The British sovereign is not legal tender in the United States, nor is the dollar almighty in Britain. The fact that there are Britons desiring



to buy American goods while at the same time there are Americans ready to buy British goods has led to the system of foreign-exchanges, whereby the Briton can obtain dollars for his pounds and the American pounds for his dollars. Then the Briton is in a position to buy American goods in American dollars, while the American can pay for his British goods in sterling.

Generally speaking, the number of the money units of one country which can, at any given time, be exchanged for the money units of any other country is determined by the "law of supply and demand." Apart from speculation and the deliberate influencing of the exchanges by financial interests (neither of which can exert a really *permanent* influence), the demand for dollars reflects the purchase by foreigners of goods on the American market: the demand for sterling reflects foreign purchase on the British market. Other things being equal, a merchant buys in the cheapest market. If, therefore, American prices fall, people tend to buy American goods: the demand for dollars increases, and dollars become dearer in terms of other currencies until the advantage of obtaining more goods per dollar is counterbalanced by the disadvantage of obtaining fewer dollars per unit of other currency. When this stage is reached the special demand for American goods, and accordingly for dollars also, stops. It is therefore the relation of the price levels prevailing within various countries which, in

the long run, determines the rates of exchange of their money-units ; speculation and market-rigging may cause temporary departure from the normal, but nevertheless the *ultimate* values of the pound sterling, the dollar, the mark and the franc are their respective purchasing-powers on the home market.

(45)

Let us for a moment consider two independent communities, each with its money system operated on an absolute gold basis, and each with a free market for gold—that is, allowing the unrestricted import and export of gold. Take, for a concrete example, the case of Great Britain and America in the days which preceded the great European War. In those days, if the purchasing power of the pound sterling fell relatively to that of the dollar it was feasible to obtain for each pound a definite amount of gold, ship the gold so obtained to America and with it buy a definite number of dollars. This action would have a double result. In the first place there would be less gold at home, accompanied by a smaller total volume of money, and consequently a tendency towards lower prices and an increase in the purchasing-power of the pound. Secondly, an influx of gold on to the American money market would result in an expansion of the total volume of money, with probably a rise in the general level of prices, and a fall in the purchasing power of the dollar. So, automatically, a steady ratio

was maintained between the purchasing powers of the various monetary units in the respective home markets, resulting in a stable rate of exchange between the currencies of the two countries.

A curious fact is noticeable in this connection: so long as the money systems of the world were maintained on a genuine gold basis it was not necessary for any large transmissions of gold from one country to another to be actually made in order to maintain the equilibrium of the exchanges. The general recognition of the possibility of such transfers was sufficient to keep the rates at or about a constant level. In pre-war days there was approximately the same amount of pure gold in 486 dollars or 2,522 francs or 2,043 marks as in 100 golden sovereigns, and accordingly, with free gold markets, the pound sterling normally exchanged for round about 4.86 dollars, 25.22 francs, or 20.43 marks. These figures indicate what was called "the parity of exchange," maintained by reference of the monetary units of each country to a common Gold Standard.

During the Great War the nations of the world, endeavouring to conserve their gold, prohibited its export, and with the closing of the world's gold markets the automatic adjustment of the exchanges to a fixed parity ceased. Under the exigencies of war-time requirements it was found impossible, particularly by the belligerent nations, to observe the limits imposed by "sound finance." The various govern-

ments issued paper currency as legal tender, upon the strength of which the banks issued credits as freely as they did upon gold. There was still maintained a theoretical backing of gold to the paper money in circulation and the credit created thereon, but it was admittedly inadequate and arbitrary. The war swept away the gold basis, and with it the Gold Standard.

But, even though the Gold Standard passed away in all but theory, the factor that ultimately determines the rates of exchange between the monetary units of different countries still remains, and that factor is the ratio of the general price-levels prevailing within those communities. Accordingly, those who, at the close of hostilities, desired a return to the old Gold Standard sought first of all to bring the price-levels of the two principal financial countries of the world into such a relation that once again the pound sterling would exchange for 4.86 dollars. Herein lay, if not the only reason, at any rate the most reputable explanation of why we in Great Britain were subjected to a policy of monetary contraction—in order to reduce our general price-level until it bore the same relation as in pre-war days to the general level of prices in America.

(46)

Stabilisation of the foreign exchanges, although a most desirable thing, particularly in the case of a people grown accustomed to rely very largely upon their overseas trade,

can be purchased at too dear a price. "Mankind," it is said, "has been crucified upon a cross of gold," and adherence to outworn and discredited economic theories would be a heavy price to pay for stability of exchange, even if stability could be secured by no other means.

A return to the Gold Standard is, however, no necessary precedent to stabilisation of the foreign exchanges, for although in the past gold has, by influencing the volume of money in circulation, assisted in maintaining a stable ratio between the price-levels of various countries and therefore between the exchange-values of their money-units, gold is by no means essential. We have already seen how the Bank of England determines the volume of money in circulation in this country, and that monetary expansion and contraction cannot fairly be laid to the charge of the ordinary commercial banks, as such matters are very largely beyond their control.\* Now, just as the ordinary joint-stock banks have to maintain a safe ratio of bank-cash to deposits, so a central bank must also hold a certain proportion of legal tender to its liabilities. The power of a central bank (*e.g.*, the Bank of England) to create bank-cash is only limited by the amount of its holding of legal tender. It would accordingly appear that if stabilisation

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\* "The central bank is the spring from which the water of life wells up. The commercial banks are the pipes and channels by which it is conducted to a thirsty economic system."—*Midland Bank Review*.

of the foreign exchanges is considered pre-eminently desirable, a central bank can so regulate the volume of money in circulation as to maintain a stable exchange—and that without any reference whatever to gold movements—so long as it is able to obtain from the Government or elsewhere sufficient legal tender to ensure a safe ratio of cash to liabilities.

When, however, it was decided that we should return once more to a strict gold basis for our money system, serious difficulties were immediately encountered. The first of these was the industrial stagnation and poverty caused by the preliminary monetary contraction. A second difficulty arose from the fact that, if two countries such as Great Britain and the United States pursue similar money policies, then the rate of exchange prevailing between those two countries tends to remain fairly constant. Thus the reason why the deflationary policy pursued by our financiers had not succeeded by the middle of 1921 in bringing the American exchange much nearer to pre-war parity was because deflation had been proceeding in the United States at the same time.

Mr. E. M. H. Lloyd illustrates this second difficulty in his little work on "*Stabilisation*."†

"The chief reason which advocates of deflation in this country had advanced in favour of that policy was that only by that means could the pound sterling be restored to its pre-war parity with gold. In the

† Pp. 36-39.

middle of 1920, the Cost of Living Committee was advised by leading experts that the restoration of the pound to its pre-war parity with the dollar might involve a reduction of about 20 per cent. in the general level of prices. It is important to examine, therefore, the extent to which the fall in prices shown above was accompanied by an improvement in the dollar exchange. . . . Between June, 1920, and June, 1921, though there had been a fall in prices of 40 per cent., the pound had not only not improved, but had actually depreciated. . . . For an explanation of the reasons why the fall in prices and depression of trade have been at least twice as severe as the deflationists anticipated, without producing any of the desirable results which it was hoped to achieve, we have to turn to the course of events in the United States. Advocates of a speedy return to the pre-war gold standard were apt to overlook the importance of the policy pursued by the Federal Reserve Board of the United States and its effect in rendering the restoration of gold prices easy or difficult in this country. When they estimated in the summer of 1920 that the restoration of sterling to its pre-war parity would mean a reduction of not more than 20 per cent. in the general level of prices, they assumed that the level of prices in the United States would remain fairly steady; but, in fact, the level of prices in the United States fell between May, 1920, and April, 1921, by no less than 43½ per cent. In other words, the value of gold, measured in terms of commodities, had been raised by about 80 per cent. This fact explains why prices fell far more than the deflationists thought likely or desirable, without any improvement in the value of the pound sterling measured in terms of the gold dollar."

(47)

Fortunately for the prestige of our deflationists, American financiers saw fit to dis-

continue their policy of monetary contraction, so that by 1925 the pound had slowly and painfully clambered up to "dollar parity." In May of that year the Gold Standard Act was passed,\* with the object of facilitating still further our return to the Gold Standard. Amongst other things, the Act provided that the Bank of England should not be bound to pay any of its notes in legal coin, but that bank notes should not on that account cease to be legal tender. Thenceforward the money system of our country has popularly been supposed to be once again operating on a gold basis. But it is evidently a very different kind of gold-basis from that known in 1914. The sovereign is conspicuously absent, and the paper currency tokens cannot be changed for gold. The only apparent resemblance to 1914 conditions is that once more a pound is worth 4.86 dollars, more or less, on the foreign exchanges.

But it was not our policy of monetary deflation that enabled the pound to "look the dollar in the face again" so much as the reversal of the American monetary policy. And now that our pound has realised so worthy an ambition, what have we gained?

First of all, we have gained acute trade depression as a direct result of the subordination

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\* See Appendix "F."



of national need to financial policy. To quote Mr. McKenna † :

“ On what we may term its exchange aspect the operation was entirely successful, and our financial authorities may be congratulated upon their achievement, in which the sympathetic attitude of the American bankers was a material factor. On the other hand we must recognise that the transition to gold seriously impaired our export trade.”

Secondly, we have gained such benefits as are to be derived from the stabilisation of the American exchange—a stability which endures only so long as we deliberately mould our financial policy to that of the United States. Sir Josiah Stamp pointed this out in the *Times* of March 3rd, 1925, when he wrote :

“ The interdependence of the money policies of the United States and Great Britain or—not to put too fine a point upon it—the dependence of the latter upon the former, has just been dramatically demonstrated. We are informed that the bank rate must certainly be raised from 4 to 5 per cent. next Thursday. There is nothing in the present position of British Industry which would in itself call for an increase in the rate. . . . The incident seems to show clearly who it is that cracks the whip and who obeys the signal.”

Thirdly, we have gained the complete subservience of national to international financial interests. American even more than British interests were served by our so-called “ return to the Gold Standard.”\* The “ *Review* ” of the

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† January, 1926.

\* See also Appendix “G”.

National City Bank of New York, for March, 1925, contained this passage :—

“ We want the other countries back on the gold basis. . . . We have been on an island of gold, surrounded by a world of paper currencies, and there has been some question whether the other countries might not establish closer relations with each other than with the United States.”

Or again, as Mr. J. F. Darling wrote in the “ *Spectator* ” of January 10th, 1925,

“ Obviously it was of the first importance to the United States to induce England to resume the gold standard as early as possible. . . . An American controlled gold standard must inevitably result in the United States becoming the world’s supreme financial power, with England their tributary and satellite, and New York the world’s Financial Centre.”\*

As if to leave no possible doubt about the relative positions of Great Britain and the United States in financial matters, the American paper, “ *The Commercial and Financial Chronicle* ” contained this paragraph in its issue of 22nd October, 1927 :

“ An announcement of the appointment of W. W. Stewart, Vice-President of Case, Pomeroy and Co., New York, as economic advisor to the Bank of England, has given rise to persistent reports that a British financier was to be selected to work with either the Federal Reserve Board in Washington or the New York Federal Reserve Board. It may be said authoritatively that no such reciprocal arrangement is contemplated by the Federal Reserve system. It is recognised that Mr. Stewart can be of great value in London as an

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\* See also Appendix “ G.”

interpreter of conditions and trends in the money market of the United States. But so far as the Federal Reserve Bank of New York is concerned, the belief here is that the officials of that institution are entirely capable of correctly interpreting the situation in the British money market at any time, so that the advice of any British expert imported for that purpose would be unnecessary."†

Not many months after, this same Mr. Stewart formally represented the Bank of England at a meeting of super-bankers held in Paris.

No wonder the American Bankers shewed such a sympathetic attitude !

(48)

It may be a matter of amazement that British financial authorities should have played so completely into the hands of the foreigner, until we realise that "whatever else is national . . . finance is international."\* The Bank of England, our own paramount financial authority, is a private trading corporation controlled by a court consisting of the Governor, Deputy-Governor and twenty-five directors, many of whom had, and possibly still have, interests not wholly British. Some had American interests tending to influence them, while others had interests that were definitely German. For instance, a perusal of "*Who's Who*" will reveal Mr. Edward Charles Grenfell, a director of the Bank of England, as a partner in the banking firm of Morgan, Grenfell & Co.,

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† Quoted in "*The New Age*," 29th March, 1928.

\* Henry Ford, in "*The International Jew*," at p. 20.

and thus in close contact with J. P. Morgan & Co., of New York, and Morgan, Harjes & Co., of Paris. Another director, Mr. Kenneth Goschen, is a partner in the well-known firm of foreign bankers, Goschen & Cunliffe, while Mr. F. C. Tiarks is a partner in the international banking firm of J. Henry Schroeder & Co. This last-mentioned firm it was which, according to the *Times* of November 25th, 1924, headed the Anglo-American consortium which

“acquired £2,000,000 of shares in the Deutsche Bank, and have also given a credit of £3,000,000 to German State Railways to enable them to pay the levy imposed on them by the Dawes Scheme.”

And without doubt there are many international affinities which “*Who's Who*” does not reveal.

Head and shoulders above his colleagues as the financial dictator, not only of Great Britain but of Europe also, stands the Governor of the Bank, the Rt. Hon. Montagu Collet Norman, with regard to whom an American financial paper—the “*Wall Street Journal*” of March 11th, 1927—gives the following testimony—

“Montagu Collet Norman, as Governor of the Bank of England, has wide powers in determining the course of British credit. No foreign issue appears in the London market without his approval. He, more than other bankers, has inspired the policy of banks of issue in a dozen countries. His personal influence is such that he has variously been called ‘a Crusader’ and ‘the Currency Dictator of Europe’ . . . He keeps his name out of the Press as much as possible,

rarely appears in public, and goes to extraordinary lengths to hide his movements. . . .

From the time he entered office, Mr. Norman set out to re-establish approved proportions between gold and credit at the Bank of England. He was with Mr. Baldwin in America when he reached the settlement of Britain's debts. It was evident then that Mr. Norman regarded American support in returning to gold and maintaining the standard as more important than the sacrifices in debt settlement. . . .

The extent of his power well makes him the currency dictator of Europe. The Federal Reserve Board has not ignored his desires in shaping bank-rate policy. Relations between Mr. Norman and Dr. Schlacht of the Reichsbank are very intimate. The creation of the German Gold Discount Bank was only made possible through the close co-operation of the Bank of England. . . .

Empire borrowing, especially that of Australian States, has been closely regulated by the Bank of England . . . Governments which refused to return to the gold standard and to fall into line with the issue policy of the Bank of England found the London market closed to them.

Mr. Norman has been Governor of the Bank of England since 1920. In the opinion of business circles, there is no reason why he may not continue indefinitely in office."†

Who, then, is this mysterious Mr. Norman ?

"The *New York Times* of April 3rd prints a long article about him in which all the writer ('Clair Price') is able to tell is that he is a bachelor, in the middle fifties, that he was 'unknown in financial London' until he was first elected Governor of the Bank of England, in 1920, and that his firm was Brown, Shipley & Co., 'an American bank, better

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† Quoted in "*The New Age*," of April 14th, 1927.

known in New York than in London.' However few and secondhand as these facts are, they are significant enough to merit repetition. They all go to reinforce our contention that Mr. Norman was Wall Street's choice of a deflation-agent to inaugurate and supervise Britain's compulsory return to the gold standard."\*

In referring to those international influences, it must be clearly understood that the personal integrity of the directors, either collectively or individually, is not questioned. But the influences mentioned are factors which it is material to note, for it is highly probable that they are largely responsible for the post-war financial policy of the Bank of England.

(49)

On July 2nd, 1928, there received the Royal Assent an Act known as "The Currency and Bank Notes Act, 1928,"† the principal effect of which was to transfer to the Bank of England the sole control of our paper currency, and to provide for the replacement of the Treasury notes by notes of the Bank. The passing of this Act was a natural continuation of the policy recommended by the Cunliffe Committee, whose report, however, contained no reference to the relative positions of this country and the United States. The main provisions of the Act came into force on 22nd November of the same year. After that date the issue of Treasury

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\* From "*The New Age*," May 5th, 1927.

†See Appendix H.

notes ceased, and notes of the Bank of England, limited in nominal value strictly in accordance with the amount of the Bank's gold reserves, took their place. Even those Treasury notes still left in circulation were thenceforth deemed to be Bank notes, and when recalled were replaced by that which they were already deemed to be.

It is perhaps worthy of remark that on these bank notes the King's head does not appear, and that the Houses of Parliament have been replaced by the Bank of England; Britannia has laid aside her trident, and has developed into what might fairly easily pass for a poor relation of the Old Lady of Threadneedle Street. And is it mere coincidence that these notes are so foreign in appearance? The Treasury notes, though hardly things of beauty, were palpably British. But the new notes, by their appearance, would seem to proclaim themselves the financial progeny of international interests.

Not unnaturally, all these manoeuvres received powerful support from the orthodox economist. The static-minded Professors of Political Economy are generally unable to conceive of any satisfactory financial system not based upon gold. Others, remembering the various Chairs endowed by munificent financiers, are too politic to do so. The average man regards the whole question as one surrounded by impenetrable mystery. Such knowledge,

says he in effect, is too wonderful for me, it is High Finance; I cannot attain unto it. Consequently he pays no great attention to the why and the wherefore of an alteration in the bank rate or to any of the other agencies of monetary expansion or contraction. He prefers money cheap to money dear, but there, so far as he is concerned, the matter ends. The idea of any definite policy behind such movements would be new to him: being a creature of habit he would find this unpleasant and disconcerting. "One of the greatest pains of human nature," wrote Walter Bagehot, "is the pain of a new idea," and, despite the obvious failure of the gold basis to function in times of crisis, the majority of persons continue to regard the maintenance of that basis as essential for the preservation of a sound money system.

We may therefore conveniently summarise this chapter as follows:—

(19) A policy of monetary deflation affords material advantage to those best able to bring it about.

(20) A return to a gold standard is not essential to secure stability of the foreign exchanges, which reflect prevailing price-levels.

(21) Our so-called return to the gold standard signalised the domination of International (American) over National (British) finance.



## CHAPTER VIII.

## THE BASIS OF A RATIONAL MONEY-SYSTEM.

Artificiality of the Gold Basis—Wealth and Credit—  
Trade Cycles—Real Wealth the ultimate Basis—Need  
for increased Effective Demand—A Question of Prices.

(50)

In the preceding chapter we examined some of the motives actuating those most eager for a return to gold as a basis for our money system, and we saw at the same time how great were the difficulties in the way of a return to that basis.

It is not as if a gold-based money system is a natural or even a desirable one. The gold held by any community is but an infinitesimal portion of its real wealth, and any re-establishment of such a system means the gearing down of our enormous productive powers to the limits imposed by the relative scarcity of a single metal, rather than the gearing up of our distributive system in accordance with the possibility of plenty that Science has put within our reach.

Such a system also imposes the frequent necessity of protecting gold reserves by high bank rates and dear money, though trade and commerce may be vitally dependent on cheap and stable money conditions. For instance, quite recently—on the 7th February, 1929—the Bank Rate was raised from  $4\frac{1}{2}\%$  to  $5\frac{1}{2}\%$ , the highest figure since 1921. This followed

the withdrawal of nearly £3,000,000 in gold from the Bank of England for the United States in two days, after considerable withdrawals in preceding weeks. The public were informed in their papers that, although it was very unfortunate that circumstances should have compelled the Bank of England to raise its discount rate to  $5\frac{1}{2}\%$  and thus automatically make money dearer, this action was inevitable in order to protect the Bank's stock of gold, which had fallen below £150,000,000—the amount considered by the Cunliffe Committee to be the safety minimum. But it was not explained why we need £150,000,000 of gold permanently stored away in the Bank's vaults, seeing that Britons are not allowed to use it and foreigners must be induced not to ask for it.

However, even a bad system is better than no system at all, and it is therefore both ungenerous and unjust to decry those who desire a return to a gold basis, honestly believing that this is the only satisfactory foundation for a system of finance. It is for those who think otherwise to demonstrate the feasibility of some alternative which, while retaining all the theoretical advantages of the gold basis, offers to mankind a greater opportunity of prosperity and economic freedom than is at present possible.

(51)

Definitions are apt to be somewhat tedious, but they are none the less absolutely essential

to clear thinking, and we must here digress a little in order to define the sense in which certain very important terms will henceforth be used.

*Wealth*, in the sense in which the word is used in current orthodox economic science, consists of values attaching to things capable of ownership. As a subject of study "economic wealth" in most orthodox treatises is confined to values in exchange for which other values may be obtained. It has no connection with the idea of "well-being," nor does orthodox economy concern itself with things as such. The science of economics generally current to-day deals almost solely with the creation and exchange of values.

We prefer, however, to use the term "wealth" in a more natural sense, relating it to material things. A man's real wealth lies in his capacity to exercise over material objects the rights of ownership. This capacity for ownership is not limited by the extent of his actual possessions, but includes his power to become owner of other things at his desire. Real wealth as thus defined is something closely akin to material prosperity.

*The measure of the real wealth of the nation as a whole is its ability to deliver goods (including services) when, where and as required.* Just as a country may be "rich in minerals" although the bulk of the minerals in question can only be made available through mining processes, so

may a country be wealthy—rich in goods—even though the greater part of its goods can only come into actual existence through industrial activity. The sinking of a pit does not of itself add to the supply of coal immediately available, but it does add to the real wealth of the community by augmenting its capacity to replenish or increase existing stocks of coal when required.

The real wealth of a community is thus seen to depend not only on the amount of industrial products already in existence but also upon its capacity for further production. Of these the latter is far the more important, since through it the former can be replaced indefinitely. It is not, however, necessary for our purpose to differentiate between the two bases of real wealth. The difference between goods in actual being and goods capable of being manufactured as required lies only in the degree of their availability and is often practically negligible.

Here we find a conception of wealth quite distinct from "economic wealth." The one is a natural, the other an artificial conception. The artificial science of orthodox economics deals with the creation and manipulation of values: the natural science of the New Economics deals with the production and distribution of the goods and services men need, and not with the artificial values attaching to them.

*Credit*, of course, is something founded on belief. And credit is of two kinds. In the first place, "real credit" may be defined as "*belief in the capacity of the person credited to deliver goods and services where, when and as required.*" A manufacturer's real credit is in fact the estimate made by others of his capacity to deliver goods, and may be due to his actual or reputed possession of suitable machinery or accumulated stocks. Real credit, like real wealth, is primarily concerned with material things. In the second place, "financial credit" is "*belief in the capacity of the person credited to deliver money where, when and as required.*"\* The financial credit of a person is the estimate formed by others of his capacity to pay money, and may be due to his actual or reputed possession of a substantial bank-balance, or confidence in his ability to dispose of his goods or services in return for money.

(52)

Credit, then, whether real or financial, implies a belief in the capacity of the person credited to accomplish something. A bank, for instance, only allows a customer to overdraw, or in other words "gives him credit," if it believes that in the course of time the customer will be able to pay off the loan with interest. Now, when a manufacturer applies

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\* It will be noted that the definition of financial credit here given differs from that given in the writer's earlier book, "*The Community's Credit.*"

to his bankers for a loan on security of his factory, the bankers have two things to take into consideration : first, the ability of the would-be borrower to deliver the goods and services people require, and, secondly, his ability to sell them to the public at sufficient profit to enable him to repay the loan. His financial credit is thus seen to be based on two things: (1) his real credit, and (2) belief in his capacity to induce the public to absorb and pay for his wares at remunerative prices. The power to sell on the part of a manufacturer is limited by the readiness or ability of the public to buy, and it is the public demand for his goods which usually prescribes the extent of a would-be borrower's financial credit : his ability to produce the goods as desired is not generally in question.

The more spending-power there is in the hands of the public, the greater is the opportunity of vendors to sell their goods at a profit : accordingly, the more money already in circulation, the better is financial credit likely to be, and the sounder the basis for the issue of fresh credit-money. So we get periods of active borrowing, intense industrial productivity, and general prosperity. This is one side of the picture commonly called a "trade boom." The process is cumulative, and only ends when the dictates of "sound finance" so require. When the mass of bank-credits in circulation is so great in proportion to the amount of legal tender that the banking-system cannot be

sure of paying out legal tender in exchange for its own credit-money on demand, sound finance calls a halt. Lending stops, and the total volume of money gradually decreases. Traders find it less easy to dispose of their wares: their financial credit diminishes, and therewith their eligibility for existing or fresh loans. This process is also cumulative, and is marked by a period of dear money, industrial stagnation and general depression. Such is the other side of the picture, usually regarded as a visitation of Providence rather than as the natural result of a system whereby the amount of legal tender in circulation is limited, not by the needs of Industry and commerce, but by the artificial requirements of the gold-basis.

"Trade-cycles" have long proved a puzzling phenomenon, and the struggles of the orthodox economist to discover some satisfactory explanation would be almost diverting did they not betray such a woeful incapacity to understand the cause and consequently to find a remedy. Even sunspots have been summoned to his aid! Trade-cycles are simply the natural outcome of our present artificially circumscribed money-system.

(53)

We are not, perhaps, so much in need of changing the basis of our money-system as of recognising formally and frankly that at the present time it actually *is* based on potential productivity. To-day our trouble really is that

the gold-basis idea not only serves to mask this fact, but also prevents the greater part of our real wealth from being translated into financial credit.

To be more explicit. The acceptability of money depends on belief in its power to procure what men require, and its value on the capacity of the community to honour it with goods and services. So while from one viewpoint it is quite permissible and convenient to speak of a gold basis for a money system, from another point of view it is more accurate to speak of our present money system as being based on the real wealth of the community but limited and circumscribed by gold.

It is, then, only a logical step in the development of our money system to remove the artificial restriction imposed by the so-called gold-basis. At every great crisis this arbitrary limitation has had to be disregarded, either by the banks who have issued more credit-money in proportion to gold reserves than sound financial policy warranted, or by the Government who have issued paper legal tender to function alongside of and to supplement the gold. Gold is no longer essential to a sound money system and

“now that circumstances have curtailed its value as currency and created the paradoxical waste of energy whereby vast numbers of people, mainly in the British Dominions, are digging out of the earth this substance, mainly to enable Americans to bury it again in their



subterranean vaults, the question arises whether this farce should continue."†

(54)

It has already been emphasised that at the present time the capacity of Industry to supply the material needs of mankind is far in excess of its actual output. Output is restricted by many considerations, but they can practically all be reduced to this: lack of orders. If by any means the effective demand for goods and services can be increased, there is no doubt about the ability of Industry to meet it.

Some increase in effective demand might possibly occur as the result of a redistribution of existing money, but our trouble goes deeper than that. There is an insufficiency of money in the aggregate, and the redistribution of insufficient money can hardly lead to any lasting betterment. It is really a question of the proper distribution of sufficient additional money. The time, let us hope, is not far distant when it will be universally recognised that the capacity of the community to deliver goods and services where, when and as required is an effective basis, apart from any other consideration, for the issue of sufficient money to enable those goods and services to be utilised.

Professor Soddy has summarised this position as follows\* :—

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† Prof. Elliott Smith, in an address to the Aldwych Club, March 1924.

\* "*In Wealth, Virtual Wealth and Debt*," at pp. 210-211.

“With the expansion of wealth-producing power due to science and invention, we have seen that if the quantity of money in circulation were not increased the value of money would increase, but that—owing to the ruination of industry if it is compelled to sell its goods below cost due to the rise in the value of money—what actually occurs is that the shortage of money-tokens paralyses industry, and instead of *prices* being reduced, *production* is. So that the scientific advance remains unutilised, and the nation preserves its former state as regards production with fewer employed in the work, whereby unemployment and idle land and factories are the result. In fact the existing inversion of science and its consequences, from internal destitution to external insecurity and the phenomenon of world war, are the consequences of the nations not deliberately increasing their currency† for use, *pari passu* with the growth of their prosperity and virtual wealth.”

(55)

There is, however, an obvious objection to the issue of additional money based upon and only limited by the capacity of Industry to deliver goods and services—a capacity which increases daily. There is, in fact, a real danger of “inflation”—*i.e.*, a rise in the general price level (or what is the same thing, a fall in the purchasing power of the money-unit) consequent upon an undue expansion of money in relation to *goods actually on the market*.

† The term “currency” is used by Professor Soddy to express what we (following McKenna) have preferred to imply by the term “money”—*i.e.*, spending-power in its widest sense. There does not appear to be any generally accepted usage of these terms; some writers use “currency” in the wide sense just indicated, confining the meaning of “money” to tangible tokens, while others employ the terms in precisely the opposite manner.

Our problem, then, is how to increase the amount of money in circulation while retaining prices at their present level, or, alternatively, how to increase the purchasing-power of each unit of our money without reducing the total number of such units. The question is one of price adjustment, but not of the unscientific and bureaucratic "price-control" experienced during the Great War. Nor is it merely a question of price-stabilisation.

Stabilisation of the general price level is dealt with more fully at a later stage.\* Here we can only point out the impossibility under such a scheme of issuing sufficient additional money to bridge the present gap between effective demand and possible output, although it might be possible by some system of price-stabilisation to prevent that gap from widening.

The foregoing Chapter may be conveniently summarised as follows :

(22) The gold-basis for a money system is an anachronistic survival, serving at the present day merely to limit the amount of money that may be put into circulation.

(23) The alternative to a metallic basis is a real wealth basis, whereby the issue and recall of money is regulated solely by the real need of the community in relation to its physical capacity to supply that need.

(24) The full benefit of a money system based on real wealth can only be realised if

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\* See Section 66, *Infra*.

some method can be devised and applied to prevent additional issues of money being automatically absorbed by a higher level of prices.

## CHAPTER IX.

### THE PURPOSE OF AN ECONOMIC SYSTEM.

Characteristics of Present System—Advertising and Insurance—The Underlying Philosophy—A Functional Activity—Three Essential Principles.

(56)

At this juncture it will probably be well briefly to restate the mathematically inevitable consequences of the existing economic system. If these are not what we desire, we must then make up our minds with regard to the proper function of an economic system and the effects we wish to obtain from it. When the objective is certain, it should not be beyond the wit of man to devise a means of attaining it.

Normally, the outstanding characteristics of the present system when applied to a progressive industrial community seem to be these:—

(1) A tremendous *productive capacity*, capable of satisfying all or almost all the reasonable requirements of mankind.

(2) A genuine *need* on the part of the majority of the members of the community for more goods.

(3) The *dependence* of would-be consumers, either directly or indirectly, *upon industrial activity* to distribute the wages, salaries and dividends wherewith they may claim the goods they desire.

(4) The *inability* of the members of the community *to purchase* goods equivalent to

their combined output at the price that it is necessary, according to the present system, to charge.

(5) *Industrial stagnation* through lack of orders.

(6) Widespread *unemployment* both of manpower and mechanical equipment.

(7) The diversion of industrial activity from the provision of "ultimate" goods to *the creation of still more productive capacity*.

(8) An artificial incentive to thrust surplus production on to foreign markets in competition with similar attempts by other industrial communities : *War*.

(9) The *subservience* of Industrial and National policy to the policy of Finance.

(10) The growing *internationalism of financial interests*.

If these, then, are the more striking features of this industrial civilisation, it is clear that we are very far from our ideal.

(57)

In connection with the foregoing analysis of the economic situation there are two minor matters worthy, perhaps, of attention.

First, there is the ugliness of Industry. Much of the drabness of industrial surroundings is an inheritance from an era of rankest materialism, but even to-day it would almost seem that one of the necessary concomitants of industrial expansion is the disfigurement of the countryside. Not only are the erection of new factories

and the sinking of fresh pits a matter to be deplored when existing pits and factories are working to only a fraction of capacity—what is far more deplorable is the accompanying destruction of much that is beautiful and therefore of actual value to the community.

Secondly, the existing state of affairs tends to put a premium on inefficiency. As effective demand for goods is limited and as employment is to most people the only recognised title to goods and services, it follows that there is a direct incentive to make work last as long as possible. It also follows that those whose services are no longer required on productive enterprise are driven to seek or create jobs in other directions. We find, therefore, that a considerable amount of energy is diverted from the creation of wealth to the capture of markets. Consider, for instance, the amount of energy wasted in advertising. Advertising, so far as it consists in informing the public where the goods it wants can be procured, is quite a healthy by-product of Industry. But it must be regretfully admitted that a great deal of present-day advertising is neither informative nor edifying : some, indeed, is merely an effort to bamboozle a gullible public into buying what it does not really want. Thousands of skilled printers spend their time in wholly unnecessary work. At one moment a compositor may be setting up an announcement that A's beer is infinitely superior to anyone else's. The next

moment he may be found setting up an equally truthful statement that B's beer is far better than that of any rival firm. Neither statement has any necessary relation to fact.

Or again, the Insurance business affords an illustration of excessive duplication and waste of time and energy. The uncertainties of this life, rendered no less uncertain by the inherent contradictions of the system under which we live, render insurance in one form or another a necessity to the majority of people. But at the census of 1921 it was found that in England alone there were over 114,000 persons engaged wholly in the business of insurance in addition to part-time agents (whose number must be legion), and this in a decade when every other newspaper insures its readers free of charge.

Advertising and insurance are but two of the many instances that might be given. Not only are large numbers of our potential producers unemployed altogether, but an ever-increasing proportion of those in employment is engaged on unnecessary work, in the duplication of occupations or in combating the efforts of their commercial rivals. Inefficiency is the keynote of the system as a whole, however efficient isolated component units may be.

(58)

It has been pointed out\* that we are apt more or less unwittingly to adopt one of three

\* By Major C. H. Douglas, speaking at Swanwick, in November, 1924.



attitudes with regard to economic organisation. Which attitude we adopt very largely depends upon our general philosophy of life.

The first attitude is one which tends to regard the economic system as an end in itself. Man is visualised as but a cog in a vast, complex mechanism of his own devising. His needs must subserve the accepted rules governing the system. Economic "law" is not merely inexorable, it is unchallengeable.

The second attitude, while not regarding economic organisation as an end in itself, regards it as a powerful means of coercing individuals to do certain things or adopt certain modes of life. Shortly, it is seen as a system of constraint, of government.

The result of environment and training has been to create in most people an attitude towards economic organisation which, if it is not one or other of those outlined above, is probably a mixture of the two varying in its proportions in accordance with individual idiosyncrasy. The accepted philosophy of life is a philosophy of rewards and punishments, so that work, even if only for work's sake, has been exalted into a virtue. The existing economic system is buttressed by the implication, to be found at the back of nearly every mind, that man was born to work, and that therefore he should, as far as possible, be assisted or compelled to fulfil his destiny of labour.

Considered as a means of making people clamour for work, the existing economic system is probably as near perfection as any system is ever likely to be. The distributive side—the present money system—destroys the potential benefit of every development of applied science, so that the individual member of the community, instead of obtaining the benefit of the application of Science to Industry in the form of a higher standard of comfort or ampler leisure, is merely rendered physically able to produce more. And the industrial nations of the world, confronted by the blessings of lessened labour and increased leisure, see their blessing turned by the money system into that great curse, unemployment (known more popularly as Unemployment), and strive to solve this problem by finding work for all. It is not really fair to blame the existing system for its failure to provide employment, for so long as it remains unaltered it will continue to provide the maximum amount of work possible in proportion to the results achieved, and not only this, but it will continue to induce people to look on work as the blessing of life, and on Industry primarily as the provider of that blessing.

(59).

But is it really work that we require from an economic system?

There is still a third attitude which may be adopted towards economic organisation, and

this is to regard it as merely a functional activity of men and women for the supply of their material needs. This attitude holds that the end of man is not work for work's sake, but rather the free expression and the fullest development of his individuality in the best possible surroundings, and that *the ideal economic system is that which most easily and rapidly supplies material wants without encroaching on other functional activities.*

From this point of view the existing system leaves much to be desired. One side of it, the productive side, is as such beyond serious criticism. But the distributive mechanism, the money system, is radically defective. In the first place, the people who need the goods Industry can provide have not sufficient purchasing-power distributed to them to enable them to obtain those goods. Secondly, considerably less than the available number of individuals, working with modern tools and processes, can produce everything the world's population can afford to use and consume. This situation develops from year to year, and as time goes on a progressively smaller proportion of the available man-power can usefully be employed in production. The present system makes no effective provision for those displaced.

(60)

The self-contradictions and anomalies of the present system can almost all be traced to a lack of purchasing-power on the part of would-be

*consumers. Our economic system, though it has two distinct sides to it, is still a single entity. The two sides are intimately linked, and if the capacity for consumption is limited the extra capacity for production is unutilised. The problem confronting this generation is not how to create employment, but how to gear the capacity for consumption up to the capacity for production so that the whole system may work efficiently. This problem is in essence that of increasing the purchasing power of would-be consumers—of increasing the claims of the individual members of the community to goods and services.*

It is, as we have seen, of little permanent avail simply to distribute more money through the usual channels of Industry into the pockets of the consumers, as long as the prices of goods are limited only by the amount of the money available to purchase them and must of necessity include every financial cost incurred in the course of production. The problem is not so much one of increasing the nominal value of the money available to consumers through the orthodox channels of Industry as of increasing the amount of goods and services consumers can command by means of the money in their possession, up to the limits of Industry's capacity to supply.

Whatever plan is adopted to deal with this problem, it is clear that the ideal monetary system must operate on a purely automatic

basis. The issue and regulation of the money supply must be free from arbitrary manipulation by either self-seeking financial interests or (what is almost equally dangerous) well-meaning but probably myopic bureaucrats. Above all, the removal of our monetary system from the so-called gold basis must not leave it the sport of party politics. There is only one sane rule for the expansion or contraction of the money supplies, and that is so to adjust it to the needs of the industrial system that the latter is enabled to function to its fullest capacity. Accordingly :

(25) Every increase in the productive capacity of the community must be accompanied by an increase in the possible effective demand for the goods its members require ;

(26) The distribution to individuals of claims to goods and services must be progressively less and less dependent on employment ; and

(27) The regulation of the issue and recall of money must be automatically adjusted to the requirements of the economic system. Financial policy must be made to subserve industrial and national requirements.

## **PART TWO.**

### **CONSTRUCTIVE PROPOSALS.**

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**CHAPTER TEN.**  
National Money.

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**CHAPTER ELEVEN.**  
The Just Price.

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**CHAPTER TWELVE.**  
National Dividends.

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**CHAPTER THIRTEEN.**  
The Practical Application.

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**CHAPTER FOURTEEN.**  
A Multitude of Counsels.

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**CHAPTER FIFTEEN.**  
The International Aspect.

## CHAPTER X.

### CONSTRUCTIVE PROPOSALS.

#### (1) NATIONAL MONEY.

Producer-Credit and Consumer-Credit Proposals—  
Gradual Supersession of existing System—£ for £—  
A solvent Banking System—Future Regulation of  
Money Supplies—Price Stabilisation—Criticism—The  
Stimulation of Effective Demand.

(61)

By now we should have been able to form some clear idea of what is required of a practical economic system, and of what principles must be embodied in any effective proposals for the reconstruction of our money-system on a goods basis rather than on a pseudo-gold foundation. At this stage, then, we come face to face with a threefold problem of construction : first, how to stimulate effective demand until it is equal to the existing capacity of Industry to supply goods ; next, how to ensure that thereafter, as industrial capacity to produce expands, the power of individuals to order goods shall expand to a like extent ; thirdly, how to prevent the present financial powers from wrecking any scheme that they may imagine, rightly or wrongly, to prejudice their position.

The various schemes put forward as solutions to the money problem fall naturally under one of two heads. First, there are what may be termed "producer-credit" schemes. The common characteristic of all such proposals is that under them any necessary additional money

would come into circulation by way of loans to producers, and accordingly would only reach the consuming public after passing through Industry, leaving in its wake a trail of costs. This category includes all schemes—such as those of Mr. J. F. Darling, Sir Oswald Stoll, or Sir Oswald Mosley—which look to the banking system to provide the additional money from time to time required.

In contradistinction to these, there are certain schemes for providing consumers with additional purchasing-power more directly. The proposals associated with the names of Major C. H. Douglas, Professor Frederick Soddy and Mr. Arthur Kitson, though differing in many essentials, are all fundamentally “consumer-credit” proposals. Such proposals definitely recognise that the State itself should be the source of the money used by its citizens, and that new money required to meet the needs of expanding Industry should be permanent and not merely the reflection of a debt to the banking system.

The chief disadvantages of producer-credit schemes as compared with consumer-credit proposals appear to be that under the former (1) all creation of new money would be at the same time creation of new debt ; (2) such new money would bear interest by reason of its very existence ; (3) the selection of the persons to whom such new money would be issued would remain in private hands ; (4) on its way to the consumers



such new money would create as many new costs as it subsequently cancelled. Accordingly it would seem that a complete solution of our threefold problem can only be found in some scheme embodying the principles of consumer-credit.

(62)

We must not suppose that the existing money system can with impunity be scrapped and instantly replaced by some other system, however perfect. The present system is intimately bound up with the life of the community and cannot be torn away without danger. It is not unlike the ivy that covers and, while it disintegrates, lends a certain support to an old building. The too drastic and too sudden removal of its parasitic companion may find the building itself low in the dust.

Any new money system would have gradually to supersede rather than suddenly to replace the present one, retaining as far as possible what is good in the existing machinery. For instance, the banks, as repositories of the people's money and as efficient debt-collectors, are most useful institutions, and banking is one of the fine arts of the modern world. The machinery of the banks should as far as possible be retained—perhaps extended—although monetary *policy* should be withdrawn from private control. During the period of transition, however, it would still be possible for existing financial interests, unless in some way prevented, to utilise this machinery to effect sudden expan-

sion or contraction of the money supply, and thus to engender uncertainty and acute industrial crises in order to discredit the innovations.\*

Now it is beyond doubt that the working of the present money system brings to certain persons such authority and wealth that they would be extremely averse to any fundamental change.

"A man of large wealth," wrote Walter Bagehot†, "however intelligent, always thinks, more or less: 'I have a great income and I want to keep it. If things go on as they are I shall certainly keep it; but if they change I *may* not keep it.'"

That being so, it is probable that to financial interests it will appear more desirable to bolster up the present faulty system than to inaugurate a more perfect one, and, if personal desires are valued more highly than the honour of making a contribution to the life of the world, there is no way of preventing a clash of interests. Accordingly, it is our third problem which must first be dealt with. Until it has been solved the way is not clear for the practical solution of the other two.

63

Probably the most practical method that has yet been suggested for securing the supremacy of national rather than purely financial interests during the transitional period is that outlined by Professor Soddy in the book to which we have already so often referred.\*\*

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\* Compare the banking activities which led to the repeal in 1893 of the Sherman Silver Purchasing Bill. See Appendix "I."

† In "*Lombard Street*."

\*\* "*Wealth, Virtual Wealth and Debt*."

The creation and circulation of money by the banking system is a direct usurpation of the essential prerogative of government, giving to that system a paramount influence over the national well-being. By pursuing predetermined policies the banking interests are able to expand or contract the amount of money in circulation and play havoc with the national accountancy. In this way national prosperity is made subservient to financial policy. It is accordingly imperative that the control of the money-system should be restored to the Crown as representing the Nation, and not left in private hands.

Professor Soddy simply suggests that the State reclaim its lost position as the sole source of the nation's money, and enact that from and after a certain future date the banking system be required to keep £ for £ (and not merely an arbitrary proportion) of national money against liabilities to current account depositors. Henceforward the total volume of the nation's money would be free from variation in furtherance of banking interests unless the same were also the interests of the nation as a whole.

But seeing that there is in circulation some £M2,000† of bank created money, it would be necessary to issue a like amount of national money to replace it. Otherwise the obligation to keep a £ for £ ratio would lead to deflation as unendurable as it was unprecedented. Professor

† Abbreviation for £2,000,000,000 and similarly throughout the Chapter.

Soddy accordingly suggests that the Government should redeem £M2,000 of War Loan at par with genuine, newly-created money, thus replacing national interest-bearing debt by what may, in one sense, be regarded as national non-interest-bearing debt. This new money, gradually finding its way into the banking system, would take the place of the bank-created money.\*

What, then, would be the position? The amount of money in circulation would not have been altered, but all money would now be genuine, State-issued money. The only difference the general public would perceive would be the reduction in taxation that would be made possible by the transaction. The issue of this new national money by the Government to replace an equivalent amount of National Debt bearing interest at 5%, and the cancellation of the latter, would relieve national taxation by something in the region of £M100 annually—equivalent to a reduction of over 1/6 in the pound in Income Tax.

(64)

The difficulties or dangers of carrying out the foregoing scheme are more apparent than real. Ordinary business acumen would, no doubt, have to be employed, and the procedure would probably have to be gradual. There is

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\* It would, of course, be quite unnecessary to print £M2,000 worth of £1 and 10/- Treasury notes and put them into circulation. A credit-entry in the books of the Government issue department would be all that was needed, redeemable by Treasury notes if, when and as required.

in existence a mass of interest-bearing National Debt securities to an aggregate of over £M7,000. The Government would legislate for the replacement of £M2,000 of this by twenty or so drawings spreading the whole transaction over a conveniently protracted period. It would have to be provided that, simultaneously with each influx of new national money, the minimum ratio of legal tender (not mere "bank-cash," which includes much more than coin of the realm) to current-account bank-deposits should be raised by, say, 5 per cent. Thus, when at last the whole of the £M2,000 was available as national money, the banks would by law be bound to keep £ for £ of such money against their liabilities to current-account depositors.

It should be noticed that these proposals in no way seek to interfere with the legitimate functions of the banks as genuine money lenders, but they would make it impossible for them to create and destroy money at will, and by this means to usurp the proper function of the Government. Henceforth all credits issued by the banks would be genuine loans in which the lender would give up the use of the money the borrower would receive, and for which the latter would, of course, pay interest.

The banks would then be absolutely solvent. In no conceivable circumstances could they be upset by a "run" or, as in August, 1914, obliged to apply for assistance to a Government whose authority they habitually usurp. Nor would

foreign interests be able to cause a money scarcity in Britain by a sudden withdrawal of gold. We should be independent of international financiers and masters in our own house.

(65)

The adoption of the foregoing suggestion would have many advantages. It would, for example, remove the control of the quantity of the nation's money from private manipulation : it would put an end to the present practice whereby the greater part of our money bears interest because of its very existence : it would relieve taxation by something in the nature of £M100 per annum.

In short, it would clear the way for a proper regulation of the amount of money in circulation, so that it could be expanded or contracted in accordance with national needs. Expansion could be carried out by the redemption of more of the interest-bearing National Debt, which operation would again reduce taxation. Contraction, if ever necessary, could be effected by the issuing of a new loan to the public and the cancellation of the money subscribed, or else by *ad hoc* taxation. But, when one realises how sorely the industrial life of the community is crippled by want of money, one can hardly conceive of deliberate contraction ever being necessary.

We are still, however, very far from solving the other and perhaps more important problems

of (1) stimulating our demand for goods until Industry is fully employed in making the things people really need, and of (2) seeing that thereafter every increase in productive capacity is accompanied by an equivalent increase in the power of the members of the community to claim goods and services. The restoration to the Crown as representing the nation of the control of money would undoubtedly be a step in the right direction : undoubtedly also it might prove a veritable disaster unless subsequently national monetary policy followed the right lines.

The solution of the two major problems is not at all dependent on the adoption of the scheme already outlined. It may be that some will regard such a preliminary scheme with disfavour, preferring a bolder, more essential plan to be adopted straight away. No doubt, if a scientific re-organisation of the money system could be completed at one stroke, such a preparation of the way would be unnecessary. But in the prevailing circumstances Professor Soddy's suggestion is, in the writer's opinion, worthy of the most serious consideration.

With regard to the two subsequent problems, it must be realised plainly that they are quite distinct one from the other. At present only the former problem concerns us. We are to-day faced with the question of how to stimulate effective demand until it is equal to contem-

poraneous industrial capacity. When this is achieved the community will be living in circumstances very different from those of to-day, and we cannot now foresee with any certainty what motives and considerations will then influence men in their selection of a monetary policy. Fortunately—or perhaps unfortunately—that problem does not demand immediate solution.

Certain considerations do, however, apply to both problems, in examining which we recall our previous conclusion that the fundamental acceptances upon which the distributive side of the economic system is at present regulated are mutually incompatible when applied to a progressive industrial community. No proposals for the future regulation of the national money issues can therefore be expected to achieve any substantial improvement in the nation's material well-being that do not allow for either (a) additional money becoming available to consumers without passing first through the usual channels of Industry, or (b) sale to consumers at a price that does not necessarily include every financial cost of production.

Professor Soddy favours the former alternative :

“The issue of money,” he says,† “should be regulated by its purchasing power, so as to maintain the purchasing-power constant, more being issued if the purchasing-power tends to rise, or the index number

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† In “*Wealth, Virtual Wealth and Debt*,” at p. 297.



to fall, and some withdrawn from circulation if the purchasing-power tends to fall and the general price-level to rise, very much as the speed of a steam engine under varying load is automatically controlled by steam being admitted to the governor when the speed tends to fall, and shut off when it tends to rise.

"The money issued should defray national expenditure in lieu of taxation, or redeem interest-bearing National Debt. The withdrawal and destruction of money should be by taxation or by raising a national loan."

(66)

It may be well if, before we deal particularly with Professor Soddy's suggestion, we first turn our attention to schemes in general for the stabilisation of prices by variation of the amount of money in circulation.

Stabilisation of the general price-level by means of monetary expansion or contraction according to periodically ascertained index-figures, representing the fall or rise of the "cost of living," has an apparent justice in its objective which appeals to many people and renders them only too willing to find in it an economic cure-all. They overlook the fact that Science is continually reducing both the amount of human labour and the time taken to supply goods, so that it might with an equal appearance of justice be demanded that prices should also be correspondingly reduced. And we have already remarked\* how little of any real value such proposals generally contain. There is no need to emphasise the fact that the very

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\* In Section 55, Supra.

basis of calculation is arbitrary, and that the ideas of different persons may vary widely as to what constitutes "living." A far more important criticism is that stabilisation proposals accept the "law of Supply and Demand" as inevitable, and seek to apply it to price-regulation, regardless of the fact that this so-called "law" does not operate with equal elasticity in cases of the expansion and the contraction of the money supplies. It is of still greater importance to note that such proposals afford no real stimulus to Industry. Industrial activity is restricted by lack of orders. Orders themselves are limited by lack of money. What stabilisation proposals generally do is to provide that new production, *if followed by lower prices*, shall subsequently be followed by an increased money-supply until the former price-level is reached. The cart is once more put before the horse.

The argument against regarding price-stabilisation as a possible stimulus to Industry has been neatly expressed thus :

"It is not suggested that the issue of new bits of paper, either notes or cheques, magically and by 'action at a distance' makes mankind produce more wealth. But it is submitted that new money is, under modern conditions, *the essential condition* of new production . . . . Therefore to make the expansion of money dependent on a previous increase of production is to produce industrial stalemate. Advocates of this doctrine may be referred to the two commanders in the old jingle :—

“ Lord Chatham with his sword drawn  
Was waiting for Sir Richard Strachan.  
Sir Richard, longing to be at 'em,  
Was waiting for the Earl of Chatham.”†

Again, in order to distribute this additional money to would-be consumers *by ordinary channels* (i.e., by way of bank loans to Industry paid out as wages, salaries and dividends), more plant and more machinery would have to be erected,\* so that output, although perhaps slightly increased, would represent no higher percentage than at present of Industry's capacity to supply. This is, perhaps, better than allowing the ratio of actual to possible output to fall even lower, but it certainly does seem that the proper and common-sense procedure is first of all to stimulate effective demand, and with it production, up to a greater proportion of the possible output of our present plant.

The best that can be said of such proposals is that they are automatic, and that they detach general money policy from the control of private persons, though leaving to them a large share in determining the incidence of loans and repayments in individual cases. Such proposals might also tend, somewhat slowly and painfully, to an increase of prosperity as our productive capacity increased. On the other hand, it would do nothing to raise our effective demand

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† Mr. John Strachey, in “ *Revolution by Reason* ” at pp. 174-5.

\* Cf. Section 27, *Supra*.

for goods nearer to an equality with our productive capacity, and the multiplication of unwanted plant and machinery would continue as a necessary precedent to the distribution of new purchasing power. As for those whom Industry has no longer need to employ, the proposal does not deal with their problem at all.

(67)

This sweeping criticism of stabilisation schemes in general cannot fairly be applied to Professor Soddy's suggestion without some modification, for Professor Soddy does recognise the necessity of additional money reaching the general community through other than industrial channels. The gradual redemption of interest-bearing National Debt is one obviously beneficial way of introducing new money into circulation without adding to "costs." There are also other ways of increasing the amount of money in the pockets of would-be consumers without at the same time adding to the burden of costs which must ultimately be recovered from them in prices. The method that springs first to the mind is, of course, to distribute money to individuals directly, and not through or in respect of production. There is nothing very astonishing, for example, in the suggestion that the army, navy or civil service should be paid not wholly out of the proceeds of taxation but, partly at least, by new, state-created money. Nor is it very startling to suggest that new

money should be utilised in the subvention of essential industries. As the new money circulated, the nominal spending power of the community would increase. The money would percolate through the whole economic system without any addition to the costs of industrial production, and therefore without any *necessary* addition to the amount to be recovered from consumers in prices.

But Professor Soddy's scheme has, in common with other price-stabilisation proposals, the vital defect that it does little or nothing to induce production, or to raise the ratio of possible consumption to possible production. Even the selection of a moderately high price-level as the basis of the suggested stabilisation can afford but a temporary prosperity, and the arbitrary selection of any particular price-level does not affect this fundamental flaw in principle.

(68)

We may perhaps commence our summary of the argument of this chapter by reiterating that any reorganisation of our monetary system must aim (1) to supersede the present money monopoly by a financial system controlled in the interests of the community as a whole, and (2) to enable the members of the community to obtain goods and services up to the real limit of its industrial capacity to supply them.

With regard to the first aim, it has been suggested by Professor Soddy (1) that the banks

be required by law to keep £ for £ of national money against their liabilities to current account depositors ; (2) that the necessary quantity of money to enable them to do this be issued to them in exchange for National Debt securities, which would be cancelled ; and (3) that future issues of money should be through a suitable Government department, automatically as required to maintain the greatest efficiency of the economic system.

The second aim is itself divisible into two parts, the first of which will only be attained when we have increased to unity the proportion which possible effective demand bears to actual productive capacity. In the absence of authoritative statistics we must rely on the estimates of those who have made a study of the subject, and for the purpose of argument we shall probably be safe in accepting a somewhat conservative computation which places the capacity of Industry to supply men's material needs at four times its present actual output. It is accordingly reasonable to suppose that if effective demand were trebled or even quadrupled, Industry would still be able to cope with it. Clearly, however, a threefold expansion of the money supplies would, unless accompanied by some scientific scheme of price regulation, lead to insufferable inflation ; clearly also, although

price-stabilisation proposals would indeed prevent any rise in the general price-level, it would be quite impossible by such means to put into circulation anything like the necessary additional money.

Professor Soddy's scheme is an advance on many of the other currently advocated stabilisation proposals in that under it additional money would not necessarily pass through Industry on its way to the potential consumer. It does not, however, provide any sufficient incentive to increase the production of the goods and services men need. New orders must precede new production, and new money must enable new orders to be given. Accordingly Professor Soddy's plan seems more suited to a community in which productive and consumptive capacities are approximately equal, and may, indeed, prove the most satisfactory solution to the problem of gearing together the two sides of the economic system when once they have reached approximate equality.

The position reached can be summarised thus:

- (28) The first step in economic reconstruction must be the restoration to the Nation of control over the money supplies.
- (29) This could be attained by enacting that banks should in future keep £ for £ of

national money against their liabilities to depositors.

- (30) The issue of the necessary supplies of national money in exchange for interest-bearing National Debt securities would permit of a great reduction in taxation.



## CHAPTER XI.

### CONSTRUCTIVE PROPOSALS

#### (2) THE JUST PRICE.

A Threefold Proposal—The Real Cost of Production—  
The Just Price—Reimbursement to Retailers—Monetary  
Expansion and Inflation—Criticism of this Proposal—  
The Psychological Effect.

(69)

The stabilisation proposals of Professor Soddy afford little assistance towards bridging the gap that to-day separates the capacity of the public to give orders from the far greater capacity of Industry to fulfil those orders. We are therefore driven to seek some other plan whereby the effective demand for goods on the part of the general public can be now and progressively stimulated until it approaches more and more closely to Industry's power to supply the goods demanded.

A suggestion which has attracted considerable attention and which, perhaps owing to its glaring unorthodoxy, has been subjected to misconstruction that was not always wholly inadvertent, has been put forward by Major C. H. Douglas in his well-known books "*Economic Democracy*" and "*Credit Power and Democracy*." This suggestion is really three-fold, and is as follows: *that ultimate commodities should be offered to buyers at a proportion of their financial cost of production:*

*that this proportion should be calculated in accordance with Industry's capacity to meet the increased effective demand: and that the Treasury or other public issue department should then reimburse to the retailers the amount they were consequently out of pocket.* In this way, it is claimed, consumers would obtain, through lower prices, that additional purchasing-power without which a community is unable to make use of its ever-increasing productive capacity.

(70)

So unconventional a suggestion needs very careful examination, and each of its three parts must be considered in detail. First, then, it is suggested that ultimate commodities should be offered to buyers at a percentage of the financial cost of production. "Sale under cost—impossible!" is the reaction almost inevitably aroused by this suggestion. Certainly it is a novel idea to sell continuously below financial cost—but is the *financial* cost necessarily the *real* cost of an article?

The real or physical (as opposed to financial) cost of production is consumption. The actual physical cost of making anything is the material consumed in the making. Consider for example the case of a primitive community. Its members plant trees, tend them, and in course of time gather the fruit for food and manufacture garments from the leaves. During this time they eat a certain amount of fruit already gathered, wear out a certain number of

garments, cut down a few trees and build huts. The real cost of the new trees and fruit, garments and huts is the sum of the fruit eaten, the garments worn out, and the trees cut down.

Similarly, in the more complex modern systems, the *real* cost of the goods made in any period, whether intermediate or ultimate, is the totality of goods consumed in the process. National Depreciation, which includes all consumption of goods, all export, all scrapping of obsolete machinery, is the physical price paid for National Appreciation, which includes all goods made, all imported goods, all new machinery erected. Nor is the argument effected by the fact that the ownership of money is continually being transferred during the processes of production and consumption.

Now it is manifest that in any modern industrial community appreciation far exceeds depreciation. Ultimate commodities cannot for any length of time be consumed faster than they are made, and productive capacity (new factories, new machinery and the development of mines, etc.) continually outstrips simultaneous capital depreciation. Even—one might almost say especially—during the late war, productive capacity was enormously increased, while ultimate commodities were replaced as fast as they were consumed or destroyed.

The real cost of National Production is National Consumption — something much smaller. If the money system were a scientific

cally accurate reflection of actual realities, the aggregate prices of the goods produced in any period would amount to the financial cost of the goods consumed in that period. But this would mean selling below the financial cost of the goods produced, and that is just what Major Douglas suggests.

(71)

If, then, it is admitted that "sale below cost" (*i.e.*, financial cost as distinct from real cost) is a defensible proposition, the next question to be decided is the proper proportion of "cost" at which goods should be sold to the consumer.

The second portion of Douglas' threefold suggestion is that the proportion of cost at which goods should be sold to the consumer should be calculated in accordance with Industry's capacity to meet effective demand. The "Just Price" must be one which reflects realities. Now if the financial cost of all national production during any given period is represented by  $P$ , and  $C$  represents the financial cost of all national consumption during that same period, it follows that, as the price charged for the goods produced is to be only the financial cost of the goods consumed, this price is  $\frac{C}{P}$  times the financial cost of their production. Descending, then, from the general to the particular, the "Just Price" of any article produced within that period is  $\frac{C}{P}$  times the financial cost of its production.

Another way in which this question can be approached is as follows :—Granted that goods should be sold at a fraction of the financial cost of their production, let us suppose this fraction to be represented by  $x$ . Now, pricing at  $Px$  what it has cost  $P$  to produce is equivalent to offering additional purchasing power of  $P - Px$  to the consuming public. But the net appreciation of national real wealth during our given period was  $P - C$ . If, therefore, our money system is to reflect the economic position accurately we must equate this potential additional purchasing-power with the additional power to provide goods. As  $P - Px = P - C$ , it follows that  $Px = C$  and  $x = \frac{C}{P}$ . This fraction

viz.,  $\frac{\text{Total Consumption of Real Wealth,}}{\text{Total Production of Real Wealth}}$  we shall henceforth refer to as the price-factor.

We find, therefore, that in a community wherein the financial system is an accurate reflection of economic actualities *the "Just Price" of an article to a consumer bears to the financial cost of its production the same ratio as the Gross Depreciation of Real Wealth bears to the Gross Appreciation thereof.*

Just Price = Cost Price  $\times \frac{\text{Total Consumption of Real Wealth}}{\text{Total Production of Real Wealth}}$

(72)

It is obvious, however, that goods cannot be sold continuously at less than production-cost unless the sellers are reimbursed their

loss. Accordingly the third part of Douglas' suggestion is that the Treasury or other public issue department should reimburse to retailers the amount they are out of pocket by selling at the Just Price.

The net appreciation of national real wealth is, as we saw in a previous chapter,\* a good basis—in fact the only rational basis—for the issue of new money. It is exactly this basis upon which the banks, in the ultimate analysis, do actually expand the amount of money in circulation. But instead of the necessary new money being obtained by means of the creation of new debt to the banking system, the suggestion is that the State should realise frankly that additional real wealth is a proper basis for the issue of new money and that it should create the money required to reimburse to retailers the difference between the financial cost of the goods sold by them (including a permitted percentage of profit) and the Just Price. This it could do either by printing it or by means of book entries of credits as seemed most expedient.

As a rough numerical illustration of the Just Price proposal, let us suppose that in any given accounting period the financial cost of the gross production of a particular community is £1,000,000 and that the financial cost of the simultaneous gross consumption is £800,000. The price-factor for the ensuing period (for

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\* Chapter VIII., at Section 54.

obviously the price-factor could not be applied to the period of calculation itself) would be  $\frac{8}{10}$ . Ultimate goods would then be sold by retailers to consumers at  $\frac{4}{5}$  of production-cost. If during this period the financial cost of the gross consumption was £900,000, the total price paid by consumers would be  $\frac{4}{5}$  of that sum, namely £720,000. The State would then reimburse to the retailers the balance of £180,000 by an issue of new money or credit, backed by the £200,000 worth of additional wealth produced during the accounting period. If in this latter period production remained stationary at the same figure of £1,000,000, the price-factor of the following period would be increased from  $\frac{4}{5}$  to  $\frac{9}{10}$  : but if production increased to, say, £1,200,000, the community would experience a further reduction of price-factor to  $\frac{3}{4}$ .†

Prices being lower and money being more abundant, more orders would be given and in this way the consumers would reap the benefit of each increase in national production. There would be a steady percolation of new money throughout the whole community, not resulting in higher prices but in a higher standard of living. Gone would be the need to look abroad for markets : a vast and ever-expanding market would be waiting at home.

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† As to the actual numerical value of the first price-factor, see Appendix "J."

(73)

It may not be entirely superfluous to emphasise the fact that the adoption of the Just Price proposals would not in any way tend towards what is popularly stigmatised as inflation. Inflation really means a rise in the general price level consequent upon an undue expansion of money in relation to consumable goods awaiting sale.

Expansion of money is not by itself inflation, but nowadays (so regularly does a rise in the price-level follow any considerable monetary expansion) people have grown to regard monetary expansion and inflation as synonymous terms. This, of course, is due to mental confusion : expansion of the amount of money in circulation unaccompanied by a rise in the level of prices is not inflation.

While inflation as such is not in itself a desirable thing, its consequences are far less deadly than those of its opposite, deflation. And yet inflation carries with it implications of unsoundness and untrustworthiness—implications sedulously fostered in obviously inspired quarters. The industrial prosperity that accompanies a period of monetary expansion is generally regarded as false and “too good to last”. On the other hand, deflation, in spite of the obvious discomfort of industry which accompanies falling prices, is often credited with the virtue of honesty simply because it is the opposite of inflation. Why this should be



—why, in fact, it should be considered honest for a creditor to accept payment in tokens more valuable than those he lent (which is the result of deflation) and dishonourable for a debtor to pay in tokens of less value than those he borrowed (the result of inflation)—is a problem of financial ethics which the writer has never yet solved. Popular and unreasoning disapproval is the meed of inflation : equally unreasoning approval is accorded the virtue ascribed to deflation. It is yet another example of the power of propaganda.

By an easy confusion of thought, the popular disapproval of inflation attaches itself to any conscious expansion of money. Germany and Russia are pointed out in the Press and elsewhere as horrible warnings—and there is acquiescence on the part of all who prefer to have their thinking done for them.

These proposals, however, are different. They begin at the other end. Instead of expanding or contracting the currency and allowing prices to follow (either rising or falling—in the one case neutralising the benefit and in the other case causing industrial stagnation) the suggestion here made is to begin with prices. Prices would be reduced straight away, and the cost of so doing would not be collected from consumers by taxation but would be met by absolutely new money. Such monetary expansion as took place would be used as the means of inducing a lower price level.

It may be objected, however, that in addition to the Government, we have a banking system which can and does create new money with remarkable facility, and that if along with the creation by the State of the new money required to reimburse retailers for selling "under cost" the banks exercised their present freedom of money manipulation, they might create credits to such an extent that something approaching financial chaos resulted. It is, however, difficult to conceive of such an expansion of money that Industry could not cope with the consequent demand for goods. Certainly such a state of affairs could only arise as the result of a last desperate attempt to wreck the whole economic system, and could be forestalled by enacting, as previously suggested, that banks should be obliged to keep £ for £ against their liabilities to current account depositors. But even if this precautionary step were not taken, and such a danger as we have supposed should appear imminent, is there any valid objection to placing some legal limit to the power of the banking system to create credit-money? If, for example, there were fixed a maximum amount beyond which the banks might not create credit-money uncovered by legal tender in their possession, the Government could, by controlling the amount of legal tender, avoid any undue expansion of bankers' credit-money. In this way a limit would be set to expansion of the amount of

money in circulation by action on the part of the private banks, although there would be no check placed on the automatic increase of money with the expansion of national wealth.

(74)

An interesting criticism of this suggestion has been made by Professor Soddy.\*

"The Douglas School . . . look to the National Credit as a means of distributing new purchasing-power, and so far from recognising the necessity for any initial abstinence, even go so far as to stipulate that these national issues shall be out of new money and *not* out of savings. . . . They look to the State to dispense money rather than to take it away. . . . The Douglas Scheme seems somewhat prematurely to assume the existence of a communal rather than an individualistic State, in which there are no debts, no rights of property and no private ownership of capital, and in which all the existing paraphernalia of wealth production is to be regarded in all single-mindedness as having been accumulated with the primary object of production rather than that of being hired out for production."

We do not think that anyone who has carefully studied the writings of Major Douglas will agree with the latter part of the above criticism. Major Douglas recognises that the means of production are almost universally in private ownership, and, so efficient is the purely productive side of the existing economic system,

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\* In "*Wealth, Virtual Wealth and Debt*" at pages 259 and 261.

he and all who share his views are fully content to let them remain so. But in order to enable Industry, whether individually or communally owned, to function properly, it is necessary to place in the possession of consumers a sufficiency of purchasing-power. And that, it is submitted, is a matter for the State as a whole.

Turning to the first part of this criticism, we gather that by '*abstinence*' Professor Soddy means the abstention from spending money on the purchase for consumption of the products of existing industrial capacity, and the utilisation of the money so '*saved*' in the financing of still further capital extensions. If this is so, it appears to the writer that there has been in the past century sufficient '*abstinence*' to warrant an immediate and very considerable increase in the national money, and that further deliberate abstention is, for the time being at any rate, both unnecessary and unhealthy. It must not be overlooked that there are, even at the present day, many persons who simply cannot spend on consumption the whole of the income they receive, and who therefore '*abstain*' from doing so almost in spite of themselves. In a time of greater incomes and lower prices such abstention would become correspondingly accentuated, providing, even in the estimation of Professor Soddy, a

reason for the issue by the State of new, national money.

(75)

Such, then, is the first "Social Credit" proposal of Major Douglas for the supersession of our present economic system by one more in keeping with the trend of modern scientific achievement.

The psychological effect of this suggestion is highly important. If, for instance, the lowering of prices resulted in a great increase in consumption unaccompanied by a corresponding increase in the production of wealth, then (as the price-factor would vary directly with consumption and inversely with production) prices would automatically rise until this disproportionate consumption was checked. And *vice versa*. Thus the man in the street would gain an exact and practical knowledge of the economic conditions of his country. Its prosperity would be reflected in that of its members, and any waning of prosperity would touch all through higher prices.

We have remarked already that in practice the price-factor for any accounting period would have to be calculated from the statistics of a previous one. But the psychological effect would be the same. It would soon be realised by actual experience that increased consumption and lowered production were both followed

by a higher level of prices, while lowered consumption and increased production both tended to a lower price-level. The possibility of increased consumption would thus be accompanied by an incentive to keep production well ahead. This would mean a higher standard of living on the part of every member of the community coupled with a fuller utilisation of our productive capacity. And is not this the desired end of an economic system ?

Some day, however, consumption would no doubt overtake the capacity or readiness of Industry to supply. When that day came the price-factor would have risen to unity and then it may be that stabilisation of prices along the lines recommended by Professor Soddy would be the most satisfactory money policy. Till then, however, it is suggested that the most practical and the most hopeful proposal for extricating our economic organisation from its present plight is that of Major Douglas.

Our summary will therefore be as follows :—

(31) In order that the purchasing power of the public should correspond to Industry's productive capacity, "ultimate goods" should be sold to consumers at their Just Price, which bears to the financial cost of their production the same ratio as national consumption bears to national production.

(32) The loss to retailers by sale at the Just Price should be made good by issues of new, national money.

(33) The result of this would be to raise the general standard of living by making proper utilisation of the productive capacity of Industry

## CHAPTER XII.

## CONSTRUCTIVE PROPOSALS.

## (3) NATIONAL DIVIDENDS.

Effect of Just Price Proposal—Expediency of Dividends for All—The Common Cultural Inheritance—The Consumer's Part—An Aristocracy of Service—The Dividend and the Dole—The Advantages of National Dividends—An End in View.

(76)

The effect of the application of the Just Price proposal upon the prevailing evil of involuntary unemployment would be progressively beneficial. Prices being scientifically regulated, the flow of new money into the community would represent new demand for goods. Whether the recipients of this new money spent it wisely or foolishly, the effect would be an immediate and substantial diminution of the stocks carried by retailers. Orders would flow to the wholesale houses. Production would expand. More men would be taken on and unemployment would be substantially reduced.

It is also worth observing that the scientific regulation of prices would have an indirect but entirely salutary effect upon the working of the industrial system. The stimulus to greater production which is afforded by increased demand is to-day apt to be countered (even



though but slightly) by the workers' fears of exploitation. But since the incentive to produce on the part of the worker would no longer be accompanied by a fear of undue profits being made at his expense by his employer, increased demand would simply lead to a fuller utilisation of productive capacity.

Nor must the fact be overlooked that the nature of the demand would almost certainly be modified. The first and most obvious modification would be found in the increased importance of ultimate commodities. We have already noticed how one effect of the present shortage of purchasing-power on the part of the individual consumers has been to direct industrial effort to the creation of fresh productive capacity rather than to the satisfaction of individual needs. But now the extra demand would come directly from individual consumers, and the energies of Industry would be re-orientated somewhat, to fulfil what is a truer purpose.

Again, as the gradual conversion of our *wants* into *claims* took place, the artificial compulsion to capture foreign markets for our products would disappear. Less energy would need to be devoted to the production of armaments, and more to agriculture. But in whatever direction the changed character of the demand modified the nature of the goods produced, the immediate effect would be to stimulate Industry, to offer more opportunities

of employment, and to provide with employment a rate of remuneration which would ensure to the recipient a far higher standard of life than is possible to-day.

(77)

It is clear, however, that even if by the adoption of the Just Price proposal the standard of living were raised all round, our factories would in a very short time be in a position to cope with the entire demand without employing the whole available man-power. To-day our productive capacity is so great that Unemployment is inherent in any economic system that does not deliberately make work, and that being so our problem is how to eliminate, not unemployment itself, but its ugly concomitants and consequences. This is the problem of which the solution lies in dividends for all.

The idea of dividends for all is not new. The inadequacy of an unsupplemented wage system becomes more apparent every day, and the most obvious instance of the growing recognition of this fact may be seen in the Old Age Pension. The Old Age Pension is granted to its recipient because he is a member of the Community. The facts that he is poor and old give him no *title* to the pension: they are merely arbitrary conditions restricting the number of recipients. Work done and service rendered do not form the title to this payment: in fact it might almost be said that the less work done the greater the certainty of the

pension. The title is simply membership of the Community: the means and age are irrelevant restrictions.

On the ground of expediency alone, it has been found desirable that the wage system should be supplemented by some system of non-industrial payments. But there are many people who, while forced by the logic of circumstances to admit the expediency of such payments, and even the injustice of denying them to those who cannot obtain work owing to no fault of their own, still find it difficult to reconcile them with their preconceived antipathy to "something for nothing," especially where other people are concerned.

It will accordingly be our endeavour to show that not only are national dividends eminently desirable on grounds of mere expediency, but also that they are ethically justifiable.

(78)

Let us first of all examine the factors of industrial production. It is usually maintained that there are three such factors, Capital, Labour and Land. But this division is open to at least two objections. The first objection is that it is guilty of over-refinement in divorcing land and capital. If by "Capital" we imply the material means by the proper use of which man can produce the goods and services he wishes—or, in fewer words, the tools or implements of production—land is only one, albeit an elemental, tool. The essence of Capital

is that it is an implement of production capable of individual ownership or appropriation. The benefit conferred by Capital on its owner is that by its means he can either produce what he requires or else demand payment of a rent from other people for the privilege of using it. Essentially, then, land is but one form of Capital.

The second objection is a far more serious one. The division of the factors of production into Capital, Labour and Land leaves out of any account a really potent factor in industrial production, a factor which, for want of a better term, we shall henceforth refer to as the *Common Cultural Inheritance*. This term comprises the vast heritage of discovery and invention, of culture and learning, of organisation whether social, political or industrial, of education and religion, of aspirations and ideals which have been handed down and developed by generation after generation from the dim beginnings of the race. Collectively these form the Common Cultural Inheritance of humanity, or more shortly, Civilisation.

Now industrial production is the result of the intelligent combination of these three factors: first, Capital—the tools or implements of production; second, Labour—mind, muscle and human energy in its widest sense; third, the Common Cultural Inheritance. Without Labour, Capital is powerless. Without Capital, Labour can accomplish little or nothing. And

even Capital and Labour together—machinery, mind and muscle—are practically impotent without the intervention of the third factor, the Common Cultural Inheritance.

Now of the three factors just enumerated, Capital and Labour are both capable of individual appropriation, but the Common Cultural Inheritance is not susceptible of private ownership. It is the most powerful factor of the three, but, being common to all, is generally overlooked. And yet this is a splendid heritage to which all members of the community are heirs, for the individuals composing a community are interdependent, and each is a co-heir to the Common Cultural Inheritance of the whole. Even "ideas belong to the community." No man is the sole discoverer or inventor of any process or idea. He may be the fortunate one who enunciates it in a particular form, but he has, at best, only manipulated and focussed the ideas of untold thousands of predecessors. Even the speech in which the ideas are expressed has been handed down and developed by generations of unnamed ancestors.

It is claimed, therefore, that individual members of the Community *as such* are justly and ethically entitled to a share in the produce of Industry, as well as Capital and Labour.

This same idea has been trenchantly expressed by Edward Bellamy in Chapter XIII of his remarkable book "*Looking Backward*."

An inhabitant of Bellamy's Utopia, speaking to the new arrival from the existing order, asks :

" How happened it . . . that your workers were able to produce more than so many savages would have done? Was it not wholly on account of the heritage of the past knowledge and achievements of the race, the machinery of society, thousands of years in contriving, found by you ready made to your hand? How did you come to be possessors of this knowledge and this machinery, which represents nine parts to one contributed by yourself in the value of your product? You inherited it, did you not? And what of those others . . . joint-inheritors, co-heirs with you? What did you do with their share? Did you not rob them when you put them off with crusts, who were entitled to sit with the heirs, and did you not add insult to robbery when you called the crusts Charity? "

Thus, although Bellamy's new order of society seems nowadays to be crudely materialistic and impossibly mechanical in conception, we do, with him, look forward to the time when every person shall receive, in right simply of his membership of the community, and in addition to his or her remuneration as an active producer, his or her proper share in the increasing wealth of the community as a whole. The community embraces both the owner of capital and the worker, and in so far as an individual is a member of one or both of these categories, his share as a member of the community should be additional to whatever he derives as remuneration for his direct contribution to production. Those members of the community who can claim

neither by right of capital nor labour should at least receive their proportion of the increased wealth of the community due to them as joint inheritors of the accumulated resources, knowledge and discovery of the past.

(79)

The part played by the individual members of the community in the furtherance of Industry, irrespective of any direct contribution towards production, may be shewn in another way. Assume, for the moment, that you are the owner of a large factory, replete with the most up-to-date machinery, and supplied with all the motive power necessary to work it. Needing working capital, you decide to try to obtain a loan from your bankers. Scene One opens as you approach the bank manager and explain the position. "You have splendid equipment—good! Have you any skilled operatives?" he enquires. Well, no, not just at present, but you hope to have plenty soon. "Very well, it will be time enough to discuss the question of a loan when you are in a position to produce." In other words, Capital is useless without Labour. End of Scene One.

The second scene opens later, when, having arranged for the necessary labour to work your plant, you again apply for a loan. Confident of your ability to produce, you once more approach the bank. "Splendid equipment—plenty of skilled labour—excellent!" says the manager. "Let me see, have you any orders?"

And Scene Two ends with or without the loan according as you have or have not a market for your goods.

Industry needs the co-operation of the consumer. In the industrial system the producing and consuming sides are interdependent. Production precedes consumption, and consumption must precede further production. "Trade is set going by the expenditure of money"\* and the consumer, as such, has a very important part to play. In the political economy of the past and of the present, attention is almost wholly devoted to the financing of production. The financing of consumption must of necessity feature prominently in the political economy of the future.

The analogy may perhaps be somewhat fanciful, but Aesop's fable of the belly and the members has a modern application. The various active members of the body—the arms, the mouth, the legs, and so on—seeing no reason why they should support the stomach in seeming idleness, refused to supply it with food. Day by day the hands refused to convey a morsel to the mouth, and had they done so, the mouth would have refused to open to let it pass down to the stomach. In due course the whole body sickened and grew weak unto death, and only then was it that the active, producing limbs realised the importance of the seemingly unimportant consumer.

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\* Rt. Hon. R. McKenna, January, 1923.



Therefore on such grounds, also, is justified the distribution of national dividends to all members of the community as such—not merely as passive heirs to past accumulations of knowledge and power, but as active consumers, performing an important function in the industrial system.

(80)

Although the payment of national dividends is not only expedient but ethical, it will certainly be objected that with such a system in operation no one would be found willing to perform the more menial tasks. Many people who will readily admit that beauty and culture flourish most where people are happy and free apparently feel that it is necessary to keep a number of others less happy and less free in order that they may minister to the wants of the more privileged. Economic freedom, they feel, must be limited in its application, for how else would it be possible to get services rendered?

Such an attitude of mind is not unnatural, because the conditions under which men work and long hours of monotonous routine have engendered in many people a feeling (not always openly expressed or even privately admitted) that work is a disagreeable matter to be avoided as far as possible. But Science, which can render Industry more productive, can also render it more attractive, and under better conditions the tradition of work as a curse would be replaced by the vision of "creative play"

(to borrow an expressive phrase). For man is a creature replete with creative instincts ; it is not work as such that men dislike, but compulsion to work, and in particular compulsion to perform monotonous tasks which destroy the individuality.

The removal of an economic compulsion to work does not remove the natural inducement to follow some useful occupation. Watch the professional man in his "retirement" or the schoolboy with his hobby : who so busy as either, and who so unhappy without congenial employment for hand and brain ? Nor is the creative instinct the prerogative of any particular section of the community, any more than patriotism is the perquisite of the political party that has adopted red, white and blue as its colours.

Moreover, under a system of dividends for all there would still remain a substantial economic inducement—as distinct from compulsion—to serve in factory, office or home. The worker would, as has been pointed out already, be entitled to remuneration for his services, so that he would be able to afford a higher standard of living and comfort than the non-worker. And this effect would be accentuated if there were a falling off in communal production, automatically entailing a decrease in the national dividend.

Again, men are susceptible to the ideal of service when it is presented to them in conditions that do not engender a suspicion of exploitation. It is told of a certain charwoman that she was

one day recounting to the lady of the house details of the busy time she had been having lately. It appears that several deaths had recently occurred in her neighbourhood, and that in each case she had attended to lay out the corpse (not, it will be agreed, an occupation many would choose!). But when it was suggested that in this way she must be earning quite a nice little income she replied: "No, Mum, not a penny does I ask—it's me 'obby." Her reward lay in the regard her service won for her.

In a community enjoying economic emancipation, the man who performed no service would be the nonentity, and service would gradually become recognised as the mark of superiority. The general recognition of service as the basis of all worthy enterprise would go far to remove any reluctance to perform work of a so-called menial character, for no task would be considered degrading that rendered a genuine service. Thus would arise a new and better aristocracy, founded upon the fundamental (but often disregarded) principle that whoso would be greatest must become as him that serveth.

(81)

National dividends should be distributed as such, irrespective of the financial status of the recipient or of whether he or she is employed or not. They should also be distributed on a scientific basis, and in strict accordance with the

capacity of Industry to deliver the goods they represent. At the present time a large amount of money is paid week by week to persons out of employment, by means of what is popularly stigmatised as "the dole." The amount so paid out is determined by political expediency, and bears no necessary relation to the capacity of the country to pay. It is, as has been remarked elsewhere, a kind of National Insurance against the evil effects of the present economic system, the tendency being, of course, to keep the premiums as low as possible. National dividends would be regulated strictly by the community's ability to produce the goods represented thereby. Just as a trading company periodically reckons up its assets and liabilities in the form of a balance sheet preparatory to a distribution of profits to its shareholders, so might the National Wealth Account be written up. Among the assets would be the new wealth produced, representing as it were a real profit available for distribution in kind, and as the easiest way of distributing goods and services is to issue claims to them which will be met on demand, we have here a fund for the payment of national dividends.

There are, of course, other equally important differences between this proposal of national dividends and "the dole," differences which it were superfluous to point out did not an almost perverse mentality insist on confusing the two. One very essential distinction is that

“the dole” ceases directly a man recommences work. Here, in very truth, is the apotheosis of fatuity! A man is penalised by the cessation of his Government grant as soon as he begins to make a direct contribution to national production. The State thus affords him an incentive to remain unemployed. The remedy is not, as some would have it, to withdraw “the dole” from everyone, but rather to extend the principle. Dividends for all would supplement the wage. There would be a direct incentive to earn money to add to the dividend and no one would be penalised for working.

Again, unemployment relief is paid out of the proceeds of taxation. That is to say, the money paid out is distributed at the expense of those in employment. In no sense can it be regarded as that distribution of new money which is needed to revive Industry or to enable the national productive capacity to be properly utilised. It is, in fact, merely robbing Peter to pay Paul.

(82)

The advantages to be derived from the adoption of dividends for all are patent. An adequate scheme of national dividends would do away with the necessity for Old Age Pensions, Unemployment Relief, National Health Insurance and all the other seemingly anomalous and certainly arbitrary recognitions that every member has a claim on the whole community. There would no longer be the need for any

inquisitorial examination as to age and means ; the fact of membership of the community would suffice. The widow and the orphan, the sick, the helpless and the aged, would be provided for. Beggars would be banished from the street, and the social evils that result from the desperation of penury would disappear. The family man would be on a financial equality with the bachelor, and women would at last gain economic independence of men. Hospitals and asylums would derive a needed addition to their incomes through the national dividends of their patients. Above all, we should achieve true democracy—a democracy which is economic.

The effect upon industrial progress, apart altogether from the stimulated demand, is worthy of note. At the present time wage-earners are notoriously hostile to the introduction of "labour-saving machinery," as such devices tend to reduce the number of "hands" employed, and to-day employment is practically the only means whereby a man can obtain even a tolerably decent standard of existence. If, however, every increase in the productive capacity of Industry were reflected in an increase in the amount distributed as national dividends, such hostility would lose its excuse. Science, no longer hampered by fear of creating Unemployment and its attendant miseries, would proceed more swiftly and more surely towards its goal—the creation of leisure and the industrial emancipation of mankind.

(83)

The case for the introduction of national dividends to supplement the present wage system has seldom been expressed more clearly than by Professor Soddy in "*The Inversion of Science*"† There he voices the dilemma in which he and other pioneers of physical research find themselves when they survey the practical results of their labours.

"A scientific man is apt to feel utterly out of place in the world his work has created. From time immemorial men have been attempting to lighten their labour and now that, with the help of science, success has so largely attended the effort, what is the result ?

. . . . . An ever-increasing proportion of the population is afforded ample leisure in which to cultivate their souls and denied the means of cultivating their bodies. . . Civilisation is thus pursuing two precisely opposite goals at one and the same time. On Mondays, Wednesdays and Fridays it invents new methods of abolishing labour and on Tuesdays, Thursdays and Saturdays new labours to relieve the consequent unemployment."

It is somewhat surprising, then, to find in Professor Soddy an adverse critic of these proposals for national dividends. His argument runs thus\* :—

"Even for modern science, the cleaning of the Augean stable of an industrialised nation is no light task. There would be very few, for a long time to come, unable to find in useful occupations the titles to consume if the nation seriously set itself to the task.

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† at p. 13.

\* "*Wealth, Virtual Wealth and Debt.*" at pages 262 and 265.

There are millions requiring a largely increased supply of necessities and ordinary commodities—not to mention the capital accumulations in increased stocks. We need also houses to live in, whole cities of slums must be rebuilt and poverty-stricken areas must be resuscitated, railways modernised and roads made, super-power stations created at the coal-fields to distribute to every corner of the country electric power, and there are increasing demands to be met for higher education, both of the young and the adult, and universities will have to be built to provide for the growing army of seekers after knowledge. All these projects involve production far in excess of consumption—hard work and abstinence for everybody. It would indeed be a matter for astonishment if, for a long time to come, in this country there were any prospect of dispensing with the services of any useful and willing member of the community. . . . As things are at present that (a system of national dividends) would be both premature and impracticable, and its colossal failure by discrediting the new economics would set back progress for a generation.”

Now this is quite a tenable position, for it may well be that the time is not yet fully ripe for a complete system of dividends for all. But as Arthur Kitson has reminded us, with perhaps a little pardonable exaggeration—

“the final goal of inventions is to make manual labour in production unnecessary. What is to become of the masses of mankind when the end is reached? Must the world be depopulated because our economists have failed to provide any system of wealth distribution other than wages?”

In other words, although “dividends for all” is a proposal which may not be immediately practicable, it embodies the ideal which must be



kept continually in view. It is the goal towards which we should set our faces, although we cannot perhaps achieve it yet. For, unless we ourselves know towards what goal we press, there is much danger of losing our way down the bewildering maze of side issues.

We therefore summarise our argument as follows :—

(34) A System of National Dividends is ever growing more and more necessary to supplement the wage system, which is now admittedly inadequate.

(35) National Dividends are ethically justifiable.

(36) National Dividends would solve some of the more difficult social problems of the time, and would add impetus to industrial development.

## CHAPTER XIII.

### CONSTRUCTIVE PROPOSALS.

#### (4) THE PRACTICAL APPLICATION.

A Practical Policy—Industrial Banks—Control of Industry—Regional Clearing Houses—The Discount Voucher—A National Statistical Authority

(84)

When the possibility of utilising steam-power to drive machinery was first enunciated, the greatness of the achievement consisted in the realisation and the demonstration of that possibility. The exact method of applying that discovery has since been worked out in various ways according to the need to be served. When Watt constructed his engine he could not claim to have found the only, or even the best way of harnessing steam-power. In effect his claim was, and could only be this: an engine built on such-and-such lines will work; such, therefore, is one way in which steam can be made to serve mankind. Watt could scarcely have foreseen, and certainly could never have designed the modern locomotive.

Similarly, those who accept the foregoing proposals as a triple key to unlock the gate of prosperity do not as yet concern themselves vitally with the precise form of their ultimate application. When once the inherent possibilities of the proposals have been realised and the proposals themselves accepted as a policy the actual form and method of their adoption

must be that best suited to the peculiar needs of the industry or community seeking to apply them.

Nationalisation, the Safeguarding of Industries and so forth are periodically laid before the electorate as policies for approval or rejection. The majority of those called upon to decide know little and care probably less about the administrative details of practical application, being concerned only with policy and its probable effect. Similarly, the foregoing constructive proposals comprise a policy the application of which can best be left in the hands of those who would have to give practical effect to it upon its adoption.

So here, logically, our consideration of these proposals should stop. Nevertheless, for the benefit of those who quite naturally desire to visualise them in actual operation, certain concrete schemes have been devised as possible methods of application. *Such schemes are illustrative only, and it must be clearly understood that they are designed to shew not how the proposals must necessarily be applied, but how they might possibly be put into practical effect.*

(85)

Naturally enough, the first scheme suggested for the application of the Social Credit Proposals of Major Douglas is the one which has so far received the greatest amount of attention. In January, 1919, Major Douglas issued in pamphlet form his "*Draft Scheme for the*

*Mining Industry,"* the broad lines of which scheme are capable of easy adaptation to the needs of other large industries.

Broadly speaking, the suggestion is that the industry seeking to apply this scheme should establish its own Industrial Bank, which should be by law affiliated with the Bankers' Clearing Houses in the same way as are the private and joint-stock banks at the present day. The various units composing the industry would have accounts with the appropriate bank and all the wages, salaries and dividends due to persons connected with that industry would be paid into their individual accounts. Even assuming that the greater part of this money would be almost immediately withdrawn to meet the current needs of the recipients, there would still be a steady flow of money into and out of the bank, with a substantial and increasing amount remaining on deposit. The position of the Industrial Bank would soon differ in no financial essential from that of the joint-stock bank.

Industrial Banks, however, would not be run with the principal object of gaining dividends for their shareholders. Indeed, there would be no shareholders at all in the ordinary sense ; every person connected with a particular industry would *ipso facto* have an account at the appropriate bank, would be regarded as a shareholder, and as such would have a voice in the affairs of the bank, in the election of

directors, and in deciding the policy to be pursued.

Such an industrial bank would have this among other functions: when an industry found itself in need of new financial capital, the appropriate industrial bank would have the option of providing the money jointly with the existing owners in the same proportion that the wages and salaries paid out by that industry bear to the dividends distributed. The money advanced by the bank would be secured, as it is to-day, on the credit of the industry inherent in its ability to supply the goods and services needed by the community. So, as fresh money was from time to time required by any particular industry, the bank connected therewith would advance a substantial and predominant proportion thereof, and would thus acquire an ever increasing control over its policy\*.

(86)

The foregoing suggestion would ensure that those employed in the operation and conduct of an industry would gradually and effectively obtain financial and therefore real control of the industry in which they were engaged. And yet this control—far more effective than the merely administrative control sought after by the workers to-day—would be obtained without expropriation of any capital already invested. It has even been suggested that

\* For a more detailed exposition of this suggestion see the Appendix to "*Credit Power and Democracy*," by C. H. Douglas and A. R. Orage.

existing financial capital should be guaranteed a fixed return *in perpetuo*, and should, together with new capital from time to time invested, enjoy all its existing rights and privileges except that of price-fixing†.

With regard to prices, it is suggested that these should be regulated according to the formula previously discussed. The maximum price to consumers of ultimate goods would thus be regulated at production-cost (including a permitted percentage of profit) multiplied by the current price-factor. The difference between this "just price" and production-cost would, of course, have to be made good by new issues of national money. There would seem to be no reason why goods should not be sold at less than their "just price" if the seller were willing to forego some of his profit, but obviously the amount of the reimbursement could only be the same as if he had sold at the maximum price permitted.

This scheme would do nothing to destroy the theoretical advantages of competition. The most efficient mine or factory would still have the lowest production-cost and therefore the lowest "just price." The regulation of prices strictly in proportion to the cost of production, coupled with the effective control of Industry by those vitally interested not only as producers

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† The coal owners in evidence before the Sankey Commission gave 6% as their average dividend, and it has been suggested that this should be the return guaranteed on capital already invested in the Mining Industry.

but also as consumers would create a natural tendency towards increased efficiency all round.

There would probably be a certain amount of interest payable by the industry to its bank in respect of the money supplied, which could conveniently be secured by debenture stock. This interest might well be credited partly to the bank and partly to a National Dividend Account. The amounts so credited would respectively be available for distribution among the depositors in the bank concerned as industrial dividends and as national dividends among the members of the community as a whole.

The foregoing is the earliest, and, though perhaps not the best, certainly a very interesting suggestion as to how Major Douglas' proposals might actually be brought into operation. This suggestion is especially attractive because it could be applied to a single industry or group of industries by way of commencement.

(87)

A second illustrative suggestion, and one entirely unconnected with that just described, was put forward by Major Douglas in his first book, "*Economic Democracy*." There\* he has outlined a method of dealing with the practical problem of reducing prices to the consumer. The only mechanism involved is a number of Regional Clearing Houses for the manipulation

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\* At pp. 130 et seq.

of national credit-money. How these would function has elsewhere† been discussed in some detail, and here only the briefest outline is given.

The idea underlying this suggestion is that as goods pass from manufacturer to manufacturer in the course of development from raw material to the finished product awaiting purchase by a consumer, the operations should be financed by credit-money issued from these Regional Clearing Houses on behalf of the community as a whole. Such Houses would in fact be organisations for the utilisation of public credit in the furtherance of production and consumption. The working of the scheme can best be illustrated by a simple example.

Let us suppose that *A* sells raw material to *B* for £1,000. *B* forwards the invoice to the Clearing House for his particular region and receives a temporary grant of £1,000 new money with which to pay *A*. If, now, *B* pays out £500 in labour costs—wages, salaries, etc.—the price at which he sells the half-finished product to *C* (allowing for a permitted profit of, say, 10% on such labour costs) is £1,550. Out of the proceeds of sale he repays the £1,000 to the Clearing House. Meanwhile *C* forwards the invoice to the Clearing House and duly receives his £1,550 loan of new money. If we assume that he, too, pays out £500 in direct labour costs we find that eventually, with the

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† Cf. "*The Community's Credit*" at p. 121 et seq.



same permitted percentage of profit, he sells the finished product to *D*, a retailer, for £2,100. In his turn *D* obtains from the Clearing House a loan of £2,100 new money with which he pays *C*, who is then in a position to wipe out his indebtedness to the Clearing House.

Now it is practically impossible for *D* to know with any certainty what will be the cost to him of selling these goods to the public. So, for the purpose of fixing a basic price, a permitted amount of, say, 20% must be allowed to cover all selling expenses and *D*'s own profit. This at once fixes the basic price of the goods in question at £2,520. To find the price of the goods to the customer we must multiply this figure by the current price-factor, which we will assume to be  $\frac{3}{4}$ . *D* therefore ultimately sells the goods to consumers for three-quarters of £2,520, or £1,890. The Clearing House credits him with the balance of £630, thus reducing his indebtedness there to £1,470. This is duly repaid by *D* out of prices received from consumers, and in the end he is left with £420, the 20% of £2,100 which, it will be recollected, was allowed him for selling expenses and profit.

(88)

There are, of course, many other possible ways of ensuring to consumers an increased purchasing power corresponding to increased national productiveness. When Major Douglas was giving evidence before the Standing Com-

mittee on Banking and Commerce of the Canadian House of Commons at Ottawa in April, 1923, he outlined a method which is probably the best so far devised.

"Let us," he said, "imagine a man is buying an automobile. The automobile is valued at \$2,000 as an ordinary price. . . . He goes to an ordinary recognised dealer who has the automobile he wants, and he pays \$2,000 for that automobile. That finishes the transaction as far as the agent is concerned. . . . But because the agent (with the assistance of the people behind him, the manufacturer, etc.) agrees to accept as profit an agreed percentage on his turnover only . . . he is empowered to issue a certificate that an automobile valued at \$2,000 has been sold to a private individual and he has got the money."

Now, if we suppose that the price factor for the period is  $\frac{3}{4}$  this certificate is worth one-quarter of \$2,000 to the purchaser.

"He takes that discount paper the next time he goes to the Bank . . . and he turns it in just like a cheque. The Bank receives it just like a cheque and credits his account with \$500. It is simply a book transaction, one way or another. At the end of an agreed period of time the Bank submits to the Government the certificate that it has credited to this particular purchaser of the automobile, together, of course with many others. . . . The Government sends the credit in any form which may be agreed—again, it only being a book entry—to the Bank, allowing it to write up its credits by the amount of this \$500. There is, in effect, a transfer of national credit, public collective credit, to a private account. The transaction is then finished."

Here we see quite a different mechanism, equally able to effect the necessary increase in the purchasing power of consumers through the proper utilisation of public credit. This scheme does not actually reduce the price paid by the customer at the time of making his purchase, but it achieves the end in view by (1) preventing inflation at the source and (2) reimbursing the consumer later. Particularly it should be noted that prices are regulated not by compulsion but by inducement. In none of the schemes outlined is there any means suggested of compelling the retailer to observe a certain price level: but a strong inducement is held out to him to do so, by affording his customers the advantage of the "just price" without loss to himself. The trader who would not take part in this scheme would be permitted to carry on as long as he was able—but his patrons would find that their interests were better served by buying at the stores where goods cost them the "just price" only. To benefit by remaining outside the scheme a retailer would have to sell at a price which included the entire financial cost and permitted profit, and an additional profit, and must, moreover, find a market for his goods at this higher price.

(89)

A marked feature of all the schemes outlined above is their extreme simplicity. When it is considered that the schemes embody

principles fundamentally different from any others at present offered to a bewildered public as a solution of the industrial impasse, the wonder is, not how much mechanism is needed to achieve the end in view, but how little. The apparent complexity of the processes described arises from their unfamiliarity rather than from any inherent intricacy. Consider the seeming impossibility of such a simple process as tying a knot if described in words without the aid of a diagram—and then remember that that particular knot is one which you use practically every day—probably many times daily. The whole operation of introducing the requisite new money into the circle of commerce would be mainly a matter of book-keeping far less complicated than much of that carried out by the banking houses at the present time.

There is just one other piece of machinery needed to complete the illustrations. It has already been postulated that the determination of the numerical value of the price factor is a matter for technicians, and not for politicians or financiers. So one must suppose the existence of a national statistical authority charged with the duty of calculating scientifically and impartially the ratio of National Wealth Consumption to National Wealth Production and periodically publishing such adjustments in the numerical value of the price-factor as were thus ascertained. This body of scientists would be as free from political or other influences

as is the National Physical Laboratory, the body charged with the standardisation of our weights and measures.

The parallel is frequently drawn—and it is an apt one—between the present economic system and a locomotive whose valves need re-timing. It is folly to scrap the engine which, with a scientific readjustment in certain necessary parts, is capable of doing good work ; similarly, only the wilfully blind, or those unfortunates who are possessed of the destructive complex engendered by the conditions under which they exist, would be so foolish as to advocate the entire overthrow of the present economic system. The present system is in need, not of complete overthrow, but of a vital readjustment. The great danger is that, unless such readjustment is made, force of circumstances will bring about the only possible alternative, namely, the break-up of modern industrial civilisation.

Our summary is therefore as follows :—

(37) The foregoing constructive proposals constitute a policy capable of application in many ways, and the community seeking to adopt the same should select the method most suitable to its peculiar needs.

(38) The various schemes devised embodying that policy must be regarded as illustrative only and not as definitely advocated methods of application.

(39) Adoption of such a policy would not involve any revolutionary upheaval, but would merely necessitate a readjustment of certain parts of the existing economic system.

## CHAPTER XIV.

### A MULTITUDE OF COUNSELS.

All-in-Insurance—Redistribution through Taxation—  
The Capital Levy—Mr. Chomley's Scheme—The League  
of Nations (1)—The League of Nations (2)—National  
Economy—Municipal Banks—The Birmingham Propo-  
sals—Other suggested panaceas.

(90)

There are not wanting at the present day physicians to prescribe for the prevailing disorder of our economic system. Very numerous and very various are the remedies suggested, and we may well spare a little while to examine one or two of those most widely, if not most wisely advocated. No proposal, it may be asserted with full confidence, can effect any permanent betterment in industrial and social conditions if it does not (1) increase the *effective* purchasing power of the consuming public, and (2) make provision for those from whom the application of Science to Industry has removed the burden of production. According as the proposals under examination do or do not tend towards these ends, so we must judge them as useful, useless, or even pernicious.

A complete system of "All-in insurance" on a national scale is a proposal which finds sincere and able advocacy in some quarters. But although a wide scheme of National Insurance might confer benefits on certain individuals, and would also tend to promote a greater sense

of security in those whose occupations are the most precarious, it must be recognised that such a scheme would probably fall far short of providing all the help required in the individual cases, and of course it would and could do nothing to remedy the evil with the consequences of which it deals.

Proposals for universal "all-in" insurance do not seek to provide any fund for the payment of benefits other than through the usual channels: so much to be raised by contributions—that much off possible demand for goods: so much, perhaps, by a tax on Industry—that much onto the total of prices: so much contributed by the Government—that much to be added to the taxpayers' burden. And even when the fund was distributed in benefit, what would be the effect of these transactions, except a reshuffle of already existing and admittedly inadequate purchasing power? Such a proposal fails on the application of the first test—it does nothing to increase the effective demand of the people for goods; rather it tends to lessen such demand—and the fact that it does in some measure provide for those for whose services Industry has no longer any need cannot make us regard "all-in insurance" as any adequate solution of current economic difficulties.

(91)

A street orator, after drawing the attention of his audience to the manifest disparities and



injustices in the social life of our modern industrial communities, was asked his remedy for the evils he denounced. His reply was characteristic of a type of thought very prevalent to-day. "If you wish to fill up the valleys, you must lop off the tops of the mountains." Here we find enunciated a *prima facie* case for a redistribution of wealth through taxation.

But the parallel is not exact, so let us try to find a nearer analogy. Two men are adrift in a boat on Lake Superior with only a limited quantity of fresh water on board. One has a great proportion of the water: the other has only a few drops. How is the latter to quench his thirst? "Take some of the other fellow's water," says the advocate of redistribution. "Dip his cup over the side and take more water on board," says the New Economist, realising that the boat is on a fresh water lake.

Here the analogy is far more exact. There is only a limited quantity of goods immediately available, of which some have more and some have less. But there is a practically inexhaustible store of goods that can be produced if demanded. Our productive system is physically able to make the poor prosperous beyond anything they could hope to gain by despoiling their richer brethren, and that without abstracting one iota from those who to-day are possessors of what is quite possibly more than a fair share of the goods in actual existence.

It is, indeed, a pity that the "have-nots" are to-day so obsessed with the idea of disciplining the "haves" that they fail to observe that there is really plenty for all, and that their proper objective is the fuller utilisation of modern resources, and not the reduction of all to a genteel level of mediocrity. Obsessed with this one idea they cannot see that if the total purchasing-power in the possession of the individuals comprising the community is inadequate to purchase all the production of that community, mere transference of money from one pocket to another will not effect any lasting betterment in general economic conditions.

(92)

The Capital Levy is to-day somewhat discredited as a political issue; nevertheless, a consideration of the proposal and its probable effects may be of use in further illustrating the difficulties and dangers that beset all attempts at economic amelioration within the existing system.

The Capital Levy was proposed as a means not only of redistributing existing wealth, but also of redeeming the National Debt wholly or in part. Its advocates argued that the taxation necessary to raise the interest on that debt reacted unfavourably upon trade, and they therefore proposed that an extraordinary tax of a substantial percentage of each individual's wealth above a certain figure

(£5,000 was suggested) should be made and the proceeds devoted to the reduction of our National Debt.

In practically every case, however, such a tax could only have been met by the realisation of securities. Some persons might have been able to pay by direct surrender of Government Stock, but it is certain that property of all kinds would have been forced onto the market in great profusion. On whatever principle the tax worked, it would certainly have left some people in a better position to purchase than others, and those who had control of or access to the credit-money system and were able to buy while the market was glutted would have been able to increase their material possessions enormously. The holders of stock who were paid off out of the proceeds of the Levy would also have been able to take advantage of the abnormal conditions, and the discrepancies of wealth would have remained unabated and would probably have been accentuated.

Nor must the fact be lost sight of that the Capital Levy would have induced monetary contraction in a very acute form. This aspect of the matter has been emphasised by Mr. Abbati in his book "*The Unclaimed Wealth*.\*"

"As a considerable part of the Government debt as well as other securities on which the Levy would be made are either direct loans from bankers or stand as security for loans from bankers, and as every re-

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\* Pp. 167—168.

*payment of a loan to a banker destroys a deposit of credit money* the quantity of capital appropriated in this respect by the Levy must proportionately reduce the total quantity of credit money. . . . The Capital Levy would not create any effective borrowers except those who required to borrow in order to pay the Levy."

Advocates of the Capital Levy may contend that the Government would not have attempted to collect the Levy entirely in money, but would have resorted to a levy in kind, at any rate partially. Apart from the difficulty of valuing the surrendered assets with any approach to uniformity, such a plan would merely shift the problem of realisation from individuals to the Government, and when such assets were sold and the proceeds devoted to the reduction of the National Debt there would have been the same deflation as would have resulted from a direct money levy.

As a means of increasing the public's purchasing power, the Capital Levy would be ineffective. As a means of dislocating the present economic system without providing any remedy, the Capital Levy appears singularly well-designed.

(93)

A scheme which certainly possesses the merit of originality has been propounded by Mr. C. H. Chomley, Editor of "*The British Australasian*." Mr. Chomley proposes

"That the British Government, advised by experts, should fix a minimum price for a great number of

articles which are not readily perishable and which are in constant demand.

That in fixing prices the aim should be to make them high enough to encourage production in any desirable basic industry which is now languishing, and, generally, just sufficiently high to give a fair return to those engaged in any industry, having regard to the general price level at the time when the prices were fixed.

That the minimum price should be guaranteed in the United Kingdom to the producers or makers of these articles in any quantity, from whatever part of the world they might come . . . . .

That for all these things the producers or owners should be free to obtain any price they can get in the open market, the British Government not seeking to control the price, but guaranteeing a minimum price only.

That the guarantee should be made effective by the undertaking of the Government to pay for any quantities of goods specified at the minimum price on their being delivered into stores at conveniently situated specified places in the United Kingdom.

That payment for goods delivered into these stores should be in British notes, which would be legal tender for any sum in the United Kingdom. . . . .

That on goods being deposited in the stores they should be held there until notes to the same value as those issued in respect of them were presented in exchange.

That the notes on being paid into the stores in exchange for goods should be cancelled and go out of circulation

. . . . .  
That in the event of any goods in store being burnt, or otherwise destroyed, or deteriorating, or going out of demand from any cause, the balance between notes issued and serviceable goods in store should be maintained by the cancellation of the requisite amount of notes, which would be purchased by the Government if required. . . . .”

Mr. Chomley disarms criticism by frankly admitting that his scheme is not intended to be self-sufficient but supplemental to the regular money system. He claims, however, that under his scheme producers, being assured of a market for their products, would not hesitate to turn out all manner of needed commodities, which could always be bought with the goods-tickets in circulation.

The physical objections that spring readily to mind are dismissed by Mr. Chomley with the assurance that it would not be necessary for many goods actually to go into stock to cause an industrial revival; the knowledge that certain minimum prices could always be obtained would in itself give a much needed fillip to Industry. To some small extent this is no doubt true, but if additional money in circulation is a *sine qua non* of active trade, how can we, under this scheme, have empty stores and industrial activity? If we need our purchasing-power trebled or quadrupled before Industry can achieve maximum efficiency, it follows (seeing that one of the avowed objects of the scheme is to maintain prices) that before Industry can reach this condition there must have been put into store at least £5,000,000,000 worth of goods. So long as such goods remained in bond, it may be that the needed money would circulate to everyone's advantage: but is it really necessary to sterilise this vast amount of wealth?

The scheme is ingenious, but we cannot help feeling that other monetary schemes appear able to provide as good or better results with far less expenditure of effort than this, which is at best only designed to supplement some other financial system.

(94)

A growing recognition of the horror, folly and futility of War has made men eager in their support of an organisation whose professed object is the settlement of international misunderstandings through arbitration rather than by force. To many millions the League of Nations appears as the practical embodiment of a great ideal and as an outward and visible sign of the essential brotherhood of man. The idea of world peace appeals so instinctively to the best in people that criticism of the League has come to be regarded, if not as a proof of moral obliquity, at any rate as a sign of a warped intelligence. In spite of this, however, there are some very serious criticisms to be made.

We shall not stop to stress the rather obvious but frequently disregarded point that the League is not so much a League of Nations as a League of Governments. There is a far more fundamental criticism to be made. The League is rapidly becoming, if it has not indeed already become, the tool of another organisation, equally international—Finance. The League of Nations has been particularly active in the field of European economic "restoration," and as an

illustration of the way in which the League is made to operate in the interests of Finance let us examine the case of Austria.

From the financial point of view, Austria went from bad to worse during the four years that followed the declaration of Peace. One might almost say that Austria became a pariah among the nations. But Austria has been "set on her feet again," apparently under the benevolent guidance of the League of Nations. In October, 1922, the League approved a definite scheme of financial reconstruction, and in December of that year Dr. Zimmermann, the High Commissioner appointed by the League to supervise the carrying out of that scheme, entered on his office.

To assist in the general scheme Austria had, of course, to resort to foreign financiers for assistance. In June, 1923, the "League of Nations" Loan was floated, yielding about £26,500,000.

"The issue of the loan, which took the form of 6% bonds repayable in 1943, was made in Great Britain, the United States, France, Italy, Switzerland, Sweden, Belgium, Holland, Czechoslovakia, Spain and Austria itself. The London portion consisted of £14 millions, out of which over £3 millions went to the British Government in satisfaction of outstanding claims, the balance being readily taken up by the public at the price of 80 per cent."†

A return of six pounds per annum on every eighty pounds invested is equivalent to interest

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† *Midland Bank Review*, May-June, 1928.



at  $7\frac{1}{2}\%$  and, taking into consideration the premium on redemption, the actual yield of interest is approximately  $8\frac{1}{2}\%$ . It would be imagined that such a rate of interest could only have its justification in a comparative lack of security. But no—the loan

“carried a lien on the gross receipts from the customs duties and tobacco monopoly, which at the time the loan was issued was far in excess of the amount required for interest and sinking fund. Secondly, the League was empowered to appoint Trustees to control the service of the bonds. . . . Thirdly, the loan was guaranteed in agreed proportions by various members of the League of Nations. Great Britain, France and Czechoslovakia each made themselves liable as guarantors for  $24\frac{1}{2}\%$  of the loan, Italy for  $20\frac{1}{2}\%$ , and Belgium, Sweden, Denmark and Holland for smaller amounts.”\*

Surely this was veritable gilt-edged security!

It is interesting and not altogether irrelevant to speculate as to who it was derived most benefit from this loan—Austria, or the great lending institutions so ingeniously referred to as “the public.” Profitable investments such as these have a habit of being quickly subscribed, and it is not the small investor who gets in first. It is also a curious point to notice that although no part of the loan was guaranteed by the United States, that country received its quota of the issue.

“As part of the reconstruction scheme a new bank of issue was set up on a gold exchange basis. . . . The discount rate of the bank, after an initial upward

\* *Midland Bank Review*, May-June, 1928

movement, has fallen to lower levels and now stands at 6%. On the financial and monetary side, therefore the scheme of reconstruction would seem to have been entirely successful.”\*

The Austrian “schilling” has been stabilised against sterling. But what was the effect upon Austria?

“The League is still concerned first with balancing budgets and protecting its loan, the Austrian people with clothing themselves warmly enough to keep warm and buying enough food to keep their children fed. . . . The League cries insistently for economy, economy means higher taxes and the dismissal of more state employees. . . . The combination of circumstances has made living conditions in Vienna worse than at any time since the collapse after the Armistice.”†

“It is regrettable that a new wave of depression should have swept Vienna to such an extent as to cause 149 cases of suicide in the past month.”§

“The situation here beggars description. Fully 25 per cent, of all workers are unemployed, and subsist on a microscopic dole, which it is proposed to reduce even further. The eight-hour day, so far energetically defended by the Social Democrats, is also in danger. Its abolition is insistently demanded by the reactionaries on the pretext that it bars the way to foreign loans.”‡

On completion of the work of reconstruction, Dr. Zimmermann left Vienna in July, 1926.

(95)

And what of Hungary, and the other patients of the League? In each case an

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\* *Midland Bank Review*, May-June, 1928.

† “*The New Republic*” New York, Dec. 3rd, 1924.

§ “*The Observer*,” Feb. 15th, 1925.

‡ Vienna Correspondent of “*The Daily Herald*,” April 16th, 1925.

international loan was prescribed, and subsequently floated under League auspices. The loan to Hungary was floated in 1924. Bonds to the value of £10½ millions, bearing interest at 7½% were issued at 88, redeemable in 1944 at par. On money invested, and allowing for the premium on redemption, this loan yielded a rate of interest of nearly 9¼%. In the case of Hungary, although no guarantees were given by other Governments—

“The service of the loan was secured on specific revenues, namely those arising from customs duties, sugar tax and tobacco monopoly, together with the net revenue from the salt monopoly. These revenues again at the time of the loan far exceeded the amount required for the service of the loan. As in the case of Austria the League was empowered to appoint trustees for the bondholders, while the fulfilment of the programme of financial reform with the aid of the loan proceeds was placed under the supervision of a Commissioner General. . . . The success of the reconstruction plans soon became evident. . . . The National Bank, set up at the time of the issue of the loan, has accumulated ample resources to fulfil its functions as the sole note-issuing authority and controller of monetary conditions. The exchange was stabilised in relation to sterling . . .”\*

The rate of interest yielded by the various “reconstruction” loans, though noteworthy as throwing light upon the disinterestedness of financial philanthropy, is by no means as important as another consideration. Under the auspices of the League, and in the professed

\* *Midland Bank Review*, May-June, 1928.

service of humanity, International Finance has been able to shepherd Austria and Hungary once more into the orthodox fold. Austria, in particular, has in this way been re-established upon a "sound financial basis" and, apparently, a very unsound economic one. The same motive—the promotion of "monetary reform"—underlay the loans to Greece, Estonia, Danzig and Bulgaria. Indeed, in the case of Estonia we are told that

"a high degree of stability had already been attained before the League gave its assistance, in 1926, in putting the finishing touch to the work of reconstruction. There was no question of chronic budget deficits to be overcome; the trade position was satisfactory; while the exchange had been stable ever since 1924. The loan issued under the League auspices a year ago was for purposes of monetary reform and the provision of long term credits. . . . The scheme of monetary reform involved the conversion of the Bank of Estonia into an institution of a more purely central character. . . . The Bank of Estonia was given the sole right of note issue and absorbed the State circulation."\*

The League is thus in the gravest danger lest all the pious fervour and unselfish goodwill of its adherents should be used merely as a cloak for the further extension of the power of cosmopolitan financiers. War is an inevitable result of the existing money system. It is an outward symptom of an inward disease and can only be prevented by the removal of that which renders it inevitable. The League of

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\* *Midland Bank Review*, May-June, 1928.

Nations may be not inappropriately likened to a doctor who thinks to cure an internal complaint by suppression of the external indications. In its work for Peace and in many of its other activities, the League merits the support and encouragement of all right-minded persons: but when it lends its support to the endeavours of cosmopolitan financiers to reimpose a fundamentally anti-social and un-economic system and by "monetary reconstruction" to consolidate their authority over Governments and Peoples, it destroys the beneficent effect of its other activities, and forfeits the goodwill of all true lovers of Peace.

(96)

The true meaning of "thrift" is *the best utilisation of resources with the minimum of waste*. The implication of prosperity—"thriving"—is inherent in the word itself. Properly used, it implies a full-hearted enjoyment of Nature's bounty and not a niggardly refusal to partake of life to the utmost. But the meaning of "thrift" has changed in popular usage, and to-day it generally implies the denying to oneself of something one would otherwise have, in order to save its money-cost.

Economy, "the law of the house," had once a meaning similar to that of thrift: making the best use of the materials to hand. But, like "thrift," "economy" has lost its original meaning, and as a counsel of national policy

no longer implies "efficient administration" so much as "parsimony."

Curiously enough, the original implication of virtue has stuck to the words "thrift" and "economy" in spite of their changed meanings. In *economy* as understood to-day, a considerable number of people see the hope of the future. Thrift as a national policy is, however, founded on a popular but plausible delusion.

"The popular notion that because a nation has in the past generation produced it is unable to do so in the next, that God and usury provide so much and no more, and if we consume much one year we must make up for it by consuming less in the future, is the inversion of the truth. . . It is as fallacious as abstaining from drinking from a river because last year was hot and everyone drank so much, or shutting down a power station until an abnormally high past load had been recouped."†

In 1905, Mr. Arthur Kitson wrote as follows:—

"'Save your pennies' is one of the earliest lessons taught. And yet nothing is more certain than that this habit, if universally practised as it is preached, would destroy a very large proportion of the world's industries and reduce mankind to a very much lower level of life. . . . A good market means ability and willingness on the part of people to purchase, induced by the desire and capacity for consumption. You cannot create a great demand for goods unless people are willing to consume abundantly. Abstinence from the use of certain commodities such as alcoholic poisons may be preached without fear, but the

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†: Professor Soddy in "*Wealth, Virtual Wealth and Debt*," pp. 121-122.

man who advocates the practice of abstaining as much as possible from the consumption of all things which support and nourish and beautify and ennoble life, for the mere sake of saving, is teaching a doctrine that is economically and socially pernicious in the extreme."

Abstention from consumption and a lower standard of living are a sorry prescription for the cure of industrial stagnation and unemployment. The suggestion is absurd on the face of it.

"And yet," as Mr. Kitson went on to remark, "to the individual who wishes to rise above his fellows in the domain of wealth ownership, thrift is absolutely essential."

It would seem no exaggeration to conclude that thrift, as understood to-day, whilst beneficial to a man and those dependent on him, is an injury to society at large.

When the policy of National Economy was foisted on to the people as a help towards "paying for the war," the underlying idea was that if individually people spent less they could afford to pay more in taxation. The sponsors of this preposterous policy seemed to overlook the fact that the very effort to "save" money operates to *reduce* incomes.

"The only way for everyone to possess more money is to increase the total quantity of money. . . . Whilst the desire to possess more or less money cannot affect the total quantity of money, it can and does affect incomes in the opposite sense; the more freely the nation spends money the more money it has to spend, and the less freely it spends the less it has to spend."\*

The policy, therefore, defeated its ostensible object. By reducing the national income it

\* Professor Soddy, in "*Wealth, Virtual Wealth and Debt*," at p. 217.

reduced the yield of income tax, and incidentally led to an unforgiveable failure to utilise our national resources properly. Whatever it was, it was not a policy of "thrift."

If not individual parsimony, then perhaps it is a greater economy in Government that is needed? If we seek the chief clamourers for Government economy, we find that very frequently they are, or are influenced by, those who have vested interests in National Debt. Such persons realise the evils of over-taxation, but would be the last to wish their incomes, derived from the interest on National Debt, to be touched. Economy may be of use in a country consuming more than it is able to produce, if indeed any such country exist to-day. But although greater departmental economy may lead to sixpence off the income tax, it does not add a penny to national effective demand, seeing that the reduction in taxation does not exceed the reduction in Government expenditure—*i.e.*, in Government distribution of money to potential consumers.

Judged, then, by our two tests, abstention from consumption either on the part of the people or of the Government not only fails to provide a remedy, but, if carried to any lengths, is frankly absurd and pernicious.

(97)

At the present time there is only one Municipal Bank established in Great Britain. The success of the Birmingham Municipal Bank,



however, has been such that other local authorities are expressing a strong desire to be permitted to follow so inviting a precedent. Several municipalities have even promoted Bills in Parliament with the object of securing powers similar to those enjoyed by Birmingham, but the Treasury has been successful in persuading the municipalities concerned to withdraw the banking clauses in all cases except those of Wigan and Stoke-on-Trent. In these last named cases the Bills went before the Local Legislation Committee who decided against the promoters, though only by a very narrow majority in the Stoke case. †

From time to time the efforts of individual authorities to obtain banking powers have been supplemented by the introduction of general enabling Bills, the last of which, introduced into Parliament early in 1927, sought to authorise local authorities with a population of 150,000 or over, or a combination of authorities giving that population, to establish Municipal Savings Banks.

But so far no other local authority has been permitted to follow Birmingham's lead. The Treasury has always taken care to oppose any extension of the Birmingham experiment, although their reasons, as expressed in a letter to the Bristol Corporation's parliamentary agents, dated 18th February, 1926, do not

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† J. P. Hilton, in "*Britain's First Municipal Savings Bank*," at page 214.

appear very convincing. Whatever these reasons were, however, they may now be disregarded in view of the report of the Committee set up in November, 1926, under the chairmanship of Lord Bradbury, a former secretary to the Treasury, to consider whether or not it is desirable to permit a further extension of Municipal Savings Banks, and if so, within what limits and subject to what conditions.

The report, dated 23rd January, 1928, expresses strong objection to any such extension, the principal reasons given being as follows :

" . . . might tend to increase municipal expenditure and would involve banking risks which might react unfavourably both on municipal finances and on the general credit system.

" . . . we think that the criticism of lenders in various forms does in fact, exercise some check on local authorities. We feel that an automatic control of this kind cannot be entirely replaced by any kind of external control, and on the whole we think that the raising of money in this way would tend to increase municipal expenditure."

With regard to the first of the above objections, it is significant to notice that the Association of Municipal Corporations in 1922, and the Institute of Municipal Treasurers and Accountants in 1923, both reported favourably on municipal banking. These bodies evidently do not take a serious view of the suggested threat to the stability of the financial system. And indeed the figures given in Mr. Hilton's little book with regard to the Birmingham Bank would appear to refute any suggestion of

unsoundness—or even of financial unorthodoxy—in the one instance where such a bank is in operation. And if Birmingham succeeds, why should Bristol or Manchester fail?

Altogether, this first objection to the extension of municipal banking appears unreal, and it is quite probable that even those who raise this objection do so only as a means of diverting attention from the real grounds of their opposition. More than a hint of the true reason is contained in the second extract from the report. A municipal bank permits a local authority to be in some slight degree independent of the great lending institutions. Its establishment marks a definite blow at private financial monopoly and a movement in the direction of the decentralisation of financial power.

There is another consideration, apparently not mentioned in the report, which renders it only natural to expect opposition from the joint-stock banks to any extension of municipal banking. Although only a “savings bank,” enjoying but few of the privileges possessed by the joint-stock banks, the Birmingham Bank is able to allow interest to depositors at the rate of  $3\frac{1}{2}\%$ , and to lend to the Corporation at a rate lower than the City Treasurer is prepared to pay for mortgage money or outside borrowing\*. Aided by such inducements and fostered by local sentiment, the business of the bank

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\* J. P. Hilton, in “*Britain's First Municipal Savings Bank*,” at page 206.

has increased rapidly and must necessarily have, in some degree, detracted from that of the other banks. No wonder the Committee reported that they would

“view with serious misgiving the multiplication throughout the country of banks organised on the lines of the existing bank.”

Efforts to secure the establishment of municipal banks must therefore have our sympathetic support. The opposition is powerful, being largely dictated by the big banks whose monopoly is threatened, and who use the Treasury as their mouthpiece. But the general establishment of such banks could not, of itself, prove a solution to our problem. Even if the ordinary powers of the joint-stock banks were to be granted to municipal banks, such banks would still have to maintain a safe ratio between their liabilities to depositors and their bank cash, so that there would be no radical alteration in the method of regulating the total spending-power of the community. The establishment of municipal banks would merely provide a modification in the machinery of the existing system, albeit a beneficial modification, and cannot, in the very nature of things, provide the solution we seek.

(98)

Proposals that have already attracted considerable attention, and will undoubtedly attract still more in the not too distant future, are those of Sir Oswald Mosley and Mr. John

Strachey. These proposals, which the latter has set forth in his book, "*Revolution by Reason*," are popularly and conveniently known as "The Birmingham Proposals" and deserve special consideration, if only from the fact that their sponsors recognise that economic prosperity can only be attained by a proper system of finance.

The gist of these proposals can best be given in the words of Mr. Strachey.

"These proposals are for the creation of (1) a public banking system capable of giving such accommodation to industry as will enable it to increase the purchasing power of the workers, so that a new home market can absorb industry's real productive capacity; and (2) an Economic Council for the co-ordination and control of that productive capacity."\*

"The Economic Council would be a permanent statutory body. . . The functions of this body would be of two kinds, the first of a novel character, the second based on war-time experience.

First: to create and maintain new effective demand by forcing up the money-wages (and other receipts, such as unemployment pay, etc.) of the working classes.

Second: to secure a better organisation and planning of the national capacity to produce and distribute, in order that this new demand should result in an increase of the production of goods and services, and not in an increase in prices."†

"Accordingly one of the first tasks of the Council would be to advise the Government on the initiation of Minimum Wage legislation. . . . The Council would act upon the assumption that if Industry could

\* "*Revolution by Reason*," at p. 28.

† Ibid. at p. 132.

not pay such a wage, then the community must reorganise it in such a way as to enable it to do so. . The Council would make the most careful estimate possible of our total potential production of "useful" goods and services, with existing productive resources, but in a reorganised society. Then it would calculate what real minimum wage at present prices this would make possible for the worker."§

"When a decent minimum wage had been achieved, only the first and emergency part of the task would have been accomplished. It would remain to call out, with the potent instrument of working-class demand, those vast and latent reserves of productivity which Science has put at our service but which we, in our blindness, have never used. It would then be the task of the Council to raise average wages rather than to establish minimum rates."‡

"We now come to the second and the more intricate side of the work of the Council. This would be the organisation and planning of the National Productive Resources, so that new goods and services should be forthcoming to meet and satisfy the new demand."\*

"Increased purchasing power, especially increased working-class purchasing power, does not automatically follow an increased capacity to produce, caused by better economic organisation; it is not enough to concentrate, as the Labour Movement has up till now so largely done, on the productive, the organisation side, and to leave the consumptive, the monetary side alone. . . . To attempt the organisation of supply as a first step in an economic policy is to begin at the wrong end. The first step must be the creation and maintenance of effective demand."†

"The public banking system must be so designed as to be capable of providing accommodation to manufacturers in order to enable them, at the outset, to

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§. Ibid at pp. 133-4-5.

‡ Ibid at pp. 137-138

\* Ibid at p. 143

† Ibid at p. 149-150

pay the increased wages which will be enforced upon them. . . . What is needed is a central, disinterested and, in the last resort, democratically controlled Authority which shall control the supply of the national credit . . . . Now we have already got in our centralised banking system an instrument which almost exactly—except in one respect—answers to this description. But this exception is all-important. It is not democratically controlled. . . . The Bank of England and the five great Joint Stock Banks must be acquired by the community.”§

“It is clear that with a legal minimum wage designed to call out our real productive capacity most firms would under present conditions have to seek accommodation at the public banks, and so place themselves in the community’s hands.”†

“The actual effect of the proposal is this. It first imposes a great new obligation upon the owners of Industry. That is the obligation to pay to their employees a minimum wage based on the necessities of a decent standard of life. Then in return for the acceptance of control, it gives them accommodation sufficient to enable them to meet this sudden new liability.”\*

“The Government must in the last resort provide the necessary funds for the special accommodation to Industry which we have proposed. It must be in a position to create assets in the public banking system sufficient to allow that system to give the special accommodation of which we have spoken, without getting into an unsound position.”†

“The public banks might give accommodation to Industry out of what we may call, for simplicity’s sake, new money. This does not mean that they would have so many new Treasury notes printed, and lend them to Industrialists. It simply means that they

§ Ibid at pp. 157-8-9

† Ibid at p. 162.

\* Ibid at pp. 163-4

† Ibid at pp. 170-1

will make the special accommodation to enable firms to pay minimum wage rates on a slightly different basis of loans to reserves than is their custom to-day. . . . The rest of the money required for the financing of the minimum wage rates would be raised in this way. (*i.e.*, by the imposition of heavy, direct taxation on large incomes). Such taxation would cause a transference of purchasing-power from one section of the community to another. Thus while the higher wages, etc., were increasing the purchasing power of the worker, the increased direct taxation would be decreasing the purchasing power of the property owners."§

Anyone who has followed the argument of the foregoing chapters will realise how far the Birmingham Proposals fall short of providing the desired readjustment of our economic system. Perhaps the chief defect of these proposals lies in the fact that, though they realise the need for more purchasing power to be available to would-be consumers, they do not provide for any method of making up the present deficiency except through the channels customary to-day. The wages Industry cannot afford to pay it must borrow. Indeed, one of the avowed objectives of the proposals is to enmesh Industry more and more in the toils of the banking system. It is true that the authors of the Birmingham Proposals contemplate the expropriation of the existing banks (whether by purchase or confiscation is not mentioned), but the only practical differences between the suggested public banking system and the present one appear to be that the former would grant

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§ Ibid at pp.171-172.



“ credits ” to manufacturers with greater liberality ; that its control would be one function of the Civil Service ; and that its profits would accrue to the State.

The effect of these measures upon prices is *indeed considered, but the authors of the Birmingham Proposals* apparently hope that by carrying out their suggestions with sufficient caution and delay inflation would be avoided. Their omission to take other measures to prevent the benefit of additional money being cancelled by higher prices must be regarded as a defect.

It must be regarded as another serious defect that these proposals are partisan in character. This is clearly seen in three particulars. First of all, the proposal to create an Economic Council is one part of a general scheme to effect a larger measure of Government control in industrial affairs as a step preliminary to complete nationalisation of Industry. Secondly, the proposal to expropriate the larger banks is but another step in that direction, the authors of the proposals recognising that Government control of Industry can avail nothing against privately manipulated finance. Lastly, one obvious motive of the proposals seems to be to despoil the more well-to-do in favour of the less fortunate. Shortly, the proposals are put forward as a means of achieving the ends already decided as desirable by one political party.

In these respects, therefore, the Birmingham Proposals are inferior to those of Professor Soddy or of Major Douglas, which are not political but purely economic: which involve no additional bureaucracy beyond the purely statistical department needed to calculate the data by which the amount of money would be regulated; which involve no expropriation; which are not partisan, and which are offered as a basis for co-operation between all men of goodwill.

(99)

In "*The Community's Credit*" were discussed several other suggestions advocated as remedies for the *malaise* of this present financial system. Among the many proposals considered in Chapter V. of that book were Increased Production, Higher Wages, the abolition of money, administrative control by workers, profit-sharing schemes, Nationalisation, State Banking, Export Credits and Communism.

The reader is referred to that chapter for a criticism of these and certain other proposals, but it is probable that by now he will be in a position to apply for himself the tests as to whether or not any of them provide the least hope of a lasting betterment of conditions.

We shall therefore conclude our chapter with the following summary:—

(40) No proposal for the improvement of economic conditions that does not include

some fundamental adjustment of the present financial system can achieve anything permanent.

(41) Some amelioration of conditions might result from the decentralisation of money-power inherent in the establishment of municipal banks.

(42) None of the commonly advocated proposals examined here involve any change in the underlying principles of the existing system, and all must therefore be dismissed as inadequate.

## CHAPTER XV.

## THE INTERNATIONAL ASPECT.

Foreign Trade Essentially Barter—Cosmopolitan Finance  
and Social Credit—Import, Export and the Just Price—  
The Economic Unity of the Empire—The Men of the  
Future.

(100)

In preceding chapters we have analysed the economic system as it exists to-day in the industrial communities that compose modern Western civilisation. We have seen how the unrest and unhappiness prevailing everywhere are no merely transient phenomena that will pass as naturally as, seemingly, they have arisen. Together with unnecessary and involuntary poverty, they are the inevitable outcome of an attempt to distribute the benefits of a productive system of high efficiency by means of the present financial system—a system wholly divorced from the needs of the community it is supposed to serve, and entirely inadequate to its task. From our analysis we have deduced the essential principles that must underlie any rearrangement of our economic system if it is to result in a permanent betterment of conditions, and, with these to guide us, we have then suggested means whereby these essential principles might be embodied in definitely constructive reform.

But even so our task is not yet done, and before we conclude we must deal with one

other aspect of the problem—the international one.

International trade is barter to-day just as it has ever been. There is, of course, a commodity which, as we have already seen, is by general consent used to assist in, measure, and by its transfer adjust the balance of trade relations. But gold is only a commodity, the same as corn or coal; the occasional transshipment of bullion is not really payment in money, but the transference of a valuable commodity in return for other goods.

When reduced to its simplest terms, what really happens is that the goods of one country are bought and paid for with the goods of its neighbours, and *vice versa*.

It follows that, as far as international trading is concerned, so long as a country's tokens function adequately as titles to goods and services—so long, in fact, as those tokens are indeed good money—the precise basis of the money system of that country is immaterial. The application of scientific principles to the financial system of any country is, after all, merely a matter of making an adjustment in the internal money mechanism.

(101)

There is very little doubt, however, that cosmopolitan financiers would regard with great disfavour any fundamental departure from the system which means so much to them in the way of wealth and power. Any country adopt-

ing the proposals advocated in this book would run the risk of organised propaganda to discredit such innovations, as a result of which foreign merchants would certainly become chary of accepting orders. This attitude would not be long maintained, however, for foreign merchants would hesitate to refuse money once it was found by them to be readily exchangeable for other goods. "Nobody," as has been pointed out,\*

"will take any form of money simply for the intrinsic properties of that money, but only because it is again exchangeable into something else. If you create and demonstrate with absolute certainty that any form of currency is convertible into goods and services, then that form of currency is absolutely suitable for international trade."

Put otherwise, it is the commodity-exchange-value of the money offered which chiefly concerns the foreign merchant. The basis of the money system does not vitally interest him.

The proposals of Major Douglas are designed to prevent any rise in the general level of prices as a consequence of their adoption. When it became generally realised by foreign merchants that the commodity-exchange-value of the money of a country financed on Social Credit lines was as great as or greater than that of other countries, the natural tendency of foreign exchange would be either to remain constant or else to move "in favour" of that country. Such a country would therefore find little

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\* By Major C. H. Douglas in his Evidence at Ottawa.

difficulty in buying abroad the goods it did not produce at home. Seeing that the *ultimate* object of trade is the acquisition of goods (even if the immediate aim is too often to acquire mere titles to goods), a country which did not insist upon employment as a precedent to a decent livelihood for the majority of its inhabitants could afford to regard with an equal mind whether or not, owing to the prevailing rates of exchange, its products were for the moment readily saleable in foreign markets. Its only concern would be to ensure that it was in a position to obtain from abroad the food and raw materials it needed and was unable or unwilling to produce at home owing to climatic or other conditions.

International Finance is, however, extremely powerful, and it is not impossible that the exchanges might be deliberately closed against any country adopting the foregoing proposals. Let us, then, for argument's sake, assume that Great Britain alone among the countries of the world were to adopt a Social Credit money system. Now Great Britain finds it convenient to import corn for her population. (Whether or not any real necessity exists may be queried, but that is another matter). Great Britain has coal that she is willing to surrender in exchange. Argentina, let us say, needs coal. Great Britain is not the only country willing to supply, but while the exporters of other countries calculate their price on financial cost

of production, British exporters would be able to quote prices representing not the financial cost but the real cost of the coal. In Argentinian currency they would quote the lowest figure and get the order. They would deliver the coal and be paid in Argentinian money. In this way Britain would obtain a claim on the goods and services Argentina can supply, and it would only need a central exchange office in London for the use and convenience of British traders to pass the Argentinian money from the merchant who had given coal for it to the importer who wished to utilise it in the purchase of corn. The Argentinian farmer could have no hesitation in accepting this money in payment for his corn. So, one sees, by means of a purely domestic exchange office Great Britain could buy the corn she needs with the coal she wishes to dispose of. She could barter Real Wealth of one sort for Real Wealth of another—and no foreigner need be asked to accept one penny of British money.

(102)

A question that now arises is this : in the Social Credit scheme of price-regulation, what influence would imports and exports have upon the price-factor within a community ? The answer to this question depends upon the fact that imported goods are, so far as Real Wealth is concerned, equivalent to goods produced, while on the other hand, exported goods are equivalent to goods consumed. An



influx of foreign goods is, from a material viewpoint, a boon, augmenting the goods produced at home and rendering physically possible a higher standard of life. Under existing conditions an influx of foreign goods does not have this result, as purchasing power does not expand to absorb them, and they simply compete with home products for the insufficient money possessed by the people. But if these proposals were adopted, an influx of foreign goods would lead directly to increased purchasing-power through lower prices, whereupon increased material prosperity would become actually realisable.

Imported goods would be sold to the consumer, similarly to home products, at the Just Price. As the value of imports is taken into consideration in determining the price-factor for any period, the price of such goods should logically be regulated by that factor. Practical convenience also dictates this course. The average retailer could hardly be expected to discriminate between home products and imported goods. A dual price-system would lead to endless confusion — particularly in the case of goods neither wholly imported nor wholly produced at home, such as cotton goods manufactured in Lancashire from raw cotton grown in the U.S.A. Of course, the importer of some foreign rarity might elect to trade outside the system\*.

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\* Cf. Section 88.

He could then make what profit he liked, but his customers would lose the benefit of the lower price-level of the Just Price. A rival within the system would soon oust him from the field.

Conversely, at what price would exported goods be sold to the foreign buyer? Again the answer is: at the Just Price. If for the purpose of computing the price-factor, exports are logically regarded as consumption, their price to a purchaser—of whatever nationality—should be production cost multiplied by the current price-factor. And again practical convenience supports this view. A retailer cannot discriminate in his sales to purchasers between those who intend to consume their purchases at home and those who intend to take them out of the country.

Goods sold within a "Social Credit" community would therefore be priced by retailers without regard either to their origin or their destination. The gratuitous benefit that is apparently accorded to foreign merchants by allowing them to buy at the Just Price is really cancelled by the higher rate of the money exchange. The low price-level on the home market is reflected in the high purchasing power of the home money in terms of other currencies, and the consequent ease with which foreign products can be secured. Any apparent advantage gained by the foreigner is amply repaid.

(103)

It is difficult to feel no pride in an Empire which occupies more than one-quarter of the known territory of the globe, and whose population exceeds one-quarter of the estimated number of the human race. But such pride must not degenerate into complacency; an Empire needs to be something more than vast in area and mighty in number; the possession of wide dominions confers a corresponding responsibility for the good governance of their inhabitants. Among the essentials of true imperial greatness are unity and independence. Can we claim these attributes for the British Commonwealth of Nations?

First as to unity. When, just prior to the industrial revolution, our American colonies established their independence, the wiseacres of the time found consolation in the saying that colonies were like pears and would always drop off when ripe. But events have given the lie to this plausible sophistry, unless, indeed, it be held that no other colony has yet achieved a sufficient degree of maturity. Certainly so vast an Empire as ours is not held together by force of arms, but is it too much to suggest that, from 1774 up to 1919, one of the most potent factors making for unity was London's position as the centre of the world's money market, so that the development of virgin lands was to a preponderating extent dependent upon the aid of British capital?

Of all forces tending to promote and strengthen imperial unity, probably the most powerful would be a common financial system. One imperial monetary system operating from a common centre would bind the Empire together in a way that preferential tariffs, imperial conferences and Empire Marketing Boards never can. At present the various units of Empire have their own monetary systems, all on so-called gold bases, but all different in structure and separate in operation.\* As economic units they might well be foreign countries, competing with each other for excess of exports over imports, and only united by a common sympathetic alliance against the other nations of the world, with important and powerful exceptions.

Next as to independence. The principal countries of the world, including the constituent members of the British Empire, have their monetary systems so devised that an influx of gold into the country permits of an expansion of the money in circulation, while a withdrawal of gold necessitates monetary contraction. But the United States of America is in a different position.

"Her gold stocks are so great that she can afford to lose large quantities without running any risk of the gold reserve falling below the legal minimum. Her central banking system is so constituted that, given her great wealth, she can absorb large quantities of gold and at the same time deprive it of its credit-

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\* See Appendix "G."

creating powers.† In a word, America is rich enough either to lose gold or to gain it. She now holds one-half of the total monetary gold of the world. Moreover, her creditor position constitutes a permanent magnet for gold. Her debtors must pay, and, if they can find no other way, they must pay in gold.”\*

All the other countries of the world thus find themselves as it were on the defensive, seeking to protect their gold reserves by high bank rates involving comparative money stringency. So long as they observe the monetary restrictions imposed by their unscientific and out-of-date gold bases, so long must these countries, not excepting those included in the British Empire, suffer to a greater or less degree from economic anaemia. One highly important result is that Wall Street and Washington have now become the focal points of world politics. It is American finance that is now developing the resources of Canada, and financial penetration undoubtedly facilitates a closer union.

A true Empire policy must therefore be a policy of economic unity. It must also be a policy of economic independence. Such a policy can only be achieved by a direct departure from our present monetary methods, and the substitution of a system based on the productivity of our Empire, which is admittedly sufficient to render it quite independent of the outside world. Our politicians and publicists

† See Appendix “G.”

\* Rt. Hon. R. McKenna, January, 1928.

are seldom weary of impressing upon us the fact that the British Empire is capable of supplying all the wants of its huge population, and we all know that "Britons never shall be slaves"; it is humiliating therefore to find the United States in a position to determine, by monetary manipulation, whether or not we may supply our own requirements.

Social Credit offers a policy that would bring about imperial unity and independence, and would at the same time render possible good government and the abolition of poverty within the wide realms owning allegiance to the British crown. Thus would the British Empire pass from strength to strength, united, free and prosperous.

(104)

We draw to a close by reiterating our firm conviction that the one hope for the future lies in the proper correlation of the industrial producing and the financial distributing sides of our economic system, and that this can best be achieved by the adoption in some form or other of the three great principles laid down in previous pages. By enabling men to enjoy a higher standard of life and leisure there would be created a possibility of peace at home and abroad—a possibility that to-day does not exist. Thus the way would be prepared for the arising of a brighter, cleaner, more leisured and more cultured generation, no longer servants but masters of their machines.

And it would be a less material generation, too, for a full life is also a spiritual one. Under the present system the ceaseless struggle to exist, the crushing and demoralising poverty and the anxiety of ever-impending unemployment all tend to obscure men's recognition of the needs of spiritual things. The leisure and opportunity for culture and education and all that makes life worth the living are at present subordinated to a physical struggle for material benefits—a struggle all the more cruel and senseless because so unnecessary. But the leisure and increased material prosperity that would follow the proper distribution of the goods that can to-day be so easily and adequately provided would enable men to realise that work is not the end of existence, but that life itself, full, free and beautiful, is man's worthiest tribute to his Creator. Then and then only would it be possible to appreciate completely the message of Him Who came "that men might have life, and have it more abundantly."

Let us sum up this, our concluding chapter, as follows :—

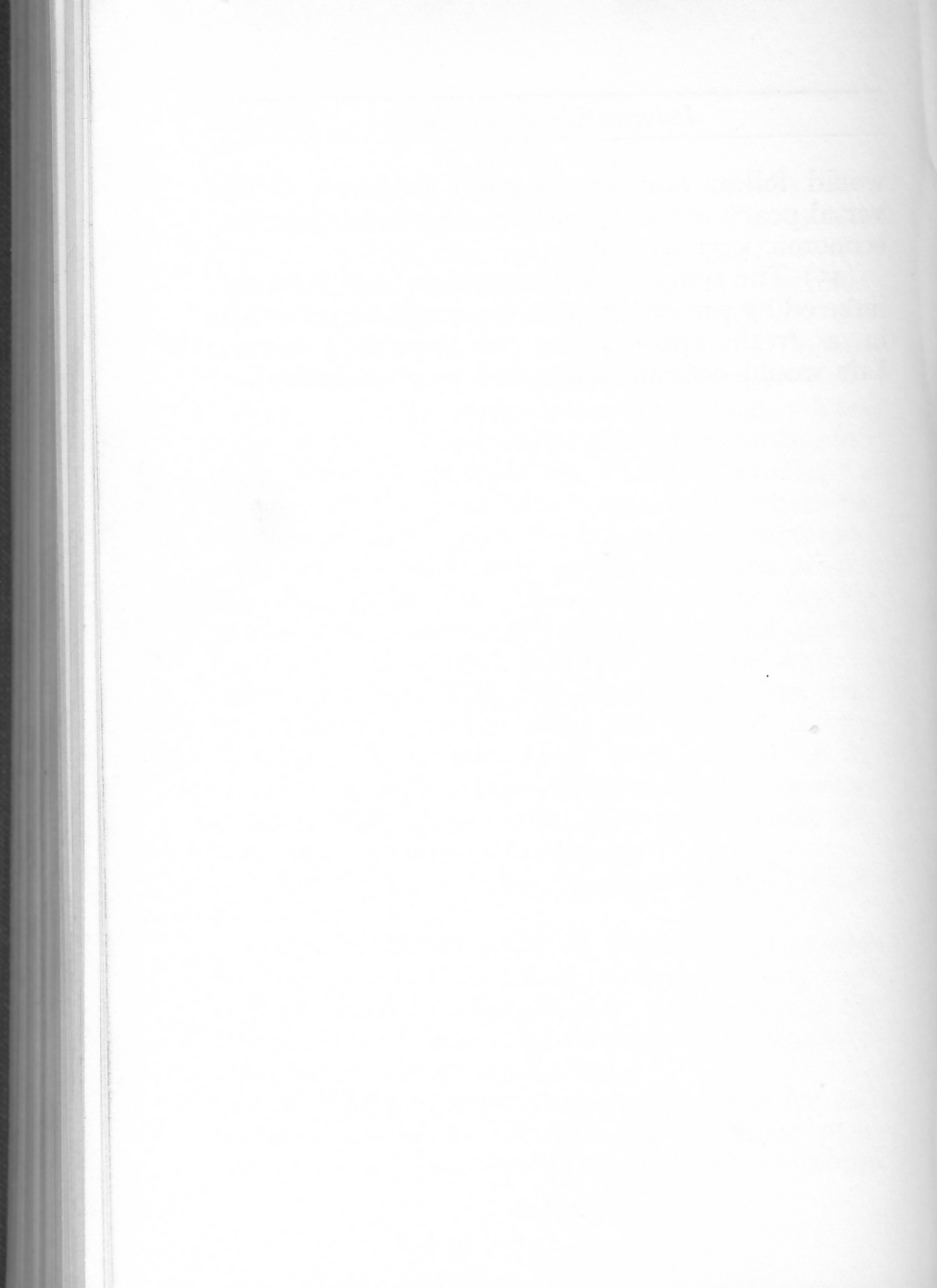
(43) The application of scientific principles to the internal financial system of any one country need not be made to depend upon the application of similar principles to the financial systems of other countries.

(44) The adoption of such principles by any country would so increase the material prosperity of its inhabitants that other countries

would follow suit at no great interval. Universal peace would be obtained by removing the economic urge to war.

(45) The removal of the anxiety and poverty induced by present conditions would be reflected in a fresh appreciation of spiritual values. Life would become fuller and more balanced.





# PART THREE.

## APPENDICES:

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### APPENDIX "A"

The Creation of Credit-Money.

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### APPENDIX "B."

"Ultimate" and "Intermediate" Commodities.

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### APPENDIX "C."

The Mechanical Man.

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### APPENDIX "D."

Capital Reduction—Balance Sheet Figures of Vickers Limited.

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### APPENDIX "E."

The Inverted Triangle.

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### APPENDIX "F."

The Gold Standard Act, 1925.

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### APPENDIX "G."

The Gold Basis in Great Britain and America

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### APPENDIX "H."

The Bank Notes and Currency Act, 1928.

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### APPENDIX "I."

The Repeal of the Sherman Silver Purchasing Act.

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### APPENDIX "J."

The First Price-Factor.

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### APPENDIX "K."

Bibliography.

## APPENDIX A.\*

### THE CREATION OF CREDIT MONEY.

It has by now become almost an axiom in banking that a loan by a bank to a customer finds its reflection in an increase in bank-deposits. That is to say, other things being equal, a fresh advance by a bank to a customer (whether by way of overdraft, or the discounting of bills) almost necessarily entails an automatic and corresponding increase in the aggregate of deposits within the banking system as a whole.

But it is not quite so universally recognised that bank-deposits are equally influenced by a rise or fall in the total of bank investments. When an ordinary investor sells his security to some other investor who buys it, there results a mere shifting of ownership ; the total of bank-deposits remains unchanged. But, if nothing else intervenes, when the banks sell to the public the result is almost of necessity a diminution of public spending-power and therefore of deposits ; and if the banks are buyers from the public, an increased total of deposits results.

The accompanying tables illustrate this point very clearly. Table One gives the aggregate deposits of our fourteen principal

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\* Reference, Sect. II.

TABLE I.  
AGGREGATE BANK DEPOSITS AT THE END OF SIX CONSECUTIVE YEARS.  
(ooo's omitted).

BANK.	Dec., 1923	Dec., 1924.	Dec., 1925	Dec., 1926	Dec., 1927	Dec., 1928
Barclays .. .. .	£299,735	£298,014	£302,800	£308,201	£314,543	£331,059
Lloyds .. .. .	340,482	339,179	341,144	343,607	355,633	350,995
Midland .. .. .	358,528	357,262	348,150	302,590	374,084	394,847
National Provincial .. .. .	262,307	253,900	250,194	255,059	267,649	279,546
Westminster .. .. .	269,233	266,853	267,963	282,199	273,986	285,313
Aggregate for the "Big Five" ..	1,530,285	1,515,208	1,510,251	1,551,656	1,585,895	1,641,760
Aggregate for nine other Banks*	305,412	301,528	291,591	286,512	294,936	291,555
Total Deposits .. .. .	£1,835,697	£1,816,736	£1,801,842	£1,838,168	£1,880,831	£1,933,315

TABLE II.  
AGGREGATE BANK LOANS AND ADVANCES AT THE END OF SIX CONSECUTIVE YEARS.  
(ooo's omitted).

BANK.	Dec., 1923	Dec., 1924	Dec., 1925	Dec., 1926	Dec., 1927	Dec., 1928
Barclays .. .. .	£132,168	£140,152	£149,065	£153,747	£161,309	£167,545
Lloyds .. .. .	138,188	162,043	178,632	189,119	193,100	193,257
Midland .. .. .	188,621	191,143	196,288	200,400	207,652	215,894
National Provincial .. .. .	124,366	129,299	131,504	137,814	143,563	146,748
Westminster .. .. .	99,580	117,225	120,499	134,200	134,416	140,850
Aggregate for the "Big Five" ..	682,923	739,862	775,988	815,280	840,040	864,294
Aggregate for nine other Banks*	154,275	149,213	149,503	147,619	147,714	140,570
Total Loans and Advances ..	£837,198	£889,075	£925,491	£962,899	£987,754	£1,004,864

TABLE III.  
AGGREGATE MONEY AT CALL AND SHORT NOTICE (DAY-TO-DAY LOANS) AT THE END OF SIX  
CONSECUTIVE YEARS.  
(ooo's omitted).

BANK.	Dec., 1923	Dec., 1924	Dec., 1925	Dec., 1926	Dec., 1927	Dec., 1928
Barclays .. .. .	£22,115	£22,972	£21,535	£24,409	£27,061	£26,872
Lloyds .. .. .	15,782	19,238	18,943	17,951	29,149	32,705
Midland .. .. .	15,490	15,994	19,067	22,222	25,767	26,349
National Provincial .. .. .	17,215	15,133	17,441	18,123	20,288	23,309
Westminster .. .. .	22,837	23,507	26,290	28,292	32,611	34,145
Aggregate for the "Big Five" ..	93,439	96,844	103,276	110,997	134,876	143,380
Aggregate for nine other Banks*	25,363	25,319	23,983	26,377	30,903	27,831
Total Day-to-Day Loans ..	£118,802	£122,163	£127,259	£137,374	£165,779	£171,211

TABLE IV.

AGGREGATE VALUE OF BILLS DISCOUNTED AT THE END OF SIX CONSECUTIVE YEARS.

(ooo's omitted).

BANK.	Dec., 1923	Dec., 1924	Dec., 1925	Dec., 1926	Dec., 1927	Dec., 1928
Barclays .. .. .	£41,634	£34,645	£38,154	£41,554	£40,055	£49,477
Lloyds .. .. .	60,527	50,012	54,161	53,397	54,527	48,528
Midland .. .. .	59,266	54,884	44,999	47,465	53,232	66,494
National Provincial .. .. .	42,817	40,907	36,838	35,861	40,608	43,397
Westminster .. .. .	64,816	44,566	46,616	45,671	39,364	41,680
Aggregate for the "Big Five" ..	269,060	225,014	220,768	223,858	227,786	249,576
Aggregate for nine other Banks.	20,137	21,595	22,336	19,078	17,477	18,047
Total Bills Discounted ..	£289,197	£246,609	£243,104	£242,936	£245,263	£267,623

TABLE V.

AGGREGATE VALUE OF BANK INVESTMENTS AT THE END OF SIX CONSECUTIVE YEARS

(ooo's omitted).

BANK.	Dec., 1923	Dec., 1924	Dec., 1925	Dec., 1926	Dec., 1927	Dec., 1928
Barclays .. .. .	£69,114	£62,913	£59,421	£56,268	£53,540	£54,243
Lloyds .. .. .	91,737	72,517	53,657	46,240	39,472	38,094
Midland .. .. .	41,910	42,038	34,650	38,683	35,725	34,726
National Provincial .. .. .	51,985	43,166	39,568	37,640	35,901	36,333
Westminster .. .. .	55,596	53,484	46,919	45,906	40,132	38,784
Aggregate for the "Big Five" ..	310,342	274,118	234,215	224,737	204,770	202,180
Aggregate for nine other Banks*	81,591	78,537	71,783	70,209	73,778	78,930
Total Investments .. .. .	£391,933	£352,655	£305,998	£294,946	£278,548	£281,110

TABLE VI.

SUMMARY SHEWING THE INFLUENCE OF BANK LOANS, INVESTMENTS, &amp;c., UPON DEPOSITS

(ooo's omitted).

	Dec., 1923	Dec., 1924	Dec., 1925	Dec., 1926	Dec., 1927	Dec., 1928
Deposits (Table I.) .. .. .	£1,835,697	£1,816,736	£1,801,842	£1,838,168	£1,880,831	£1,933,315
Loans, &c. (Table II.) .. .. .	837,198	889,075	925,491	962,899	987,754	1,004,864
Day-to-day Loans &c. (Tab.III.)	118,802	122,163	127,259	137,374	165,779	171,211
Discounts &c. (Table IV.) ..	289,197	246,609	243,104	242,936	245,263	267,623
Investments (Table V.) .. .. .	391,933	352,655	305,998	294,946	278,548	281,110
Aggregate Bank Loans, Invest- ments, &c. .. .. .	£1,637,130	£1,610,502	£1,601,852	£1,638,155	£1,677,344	£1,724,808
Difference between Aggregate Deposits and Aggregate Loans, &c. .. .. .	£198,567	£206,234	£199,990	£200,013	£203,487	£208,507

\*Coutts & Co., †District Bank, Glyn Mills & Co., †Lancashire and Yorkshire Bank, †Manchester and County Bank, Martins Bank, National Bank, †Union Bank of Manchester and Williams Deacons Bank.

Note.—Except in the case of the four Banks indicated by (†) the figures given show the average weekly position during the month of December. In the four exceptional cases, the figures included are those for Dec. 31st in each year.

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*Appendix A.*

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banks at the end of six consecutive years. Table Two shews the total of direct loans and advances made by those banks to their customers and outstanding on those dates. The third and fourth tables set out the amounts advanced by those banks by way of day-to-day loans and the discounting of commercial bills—advances of a necessarily more temporary nature. The fifth table gives the value of the investments of those banks on the same dates.

Now the figures given for these fourteen banks may be taken for all practical purposes as those of British banking as a whole, and therefore, if the foregoing contention is correct, we should expect the figures for deposits given in Table One to vary almost exactly with the total of the loans, day-to-day loans, discounts and investments as given in Tables Two, Three, Four and Five. Table Six is accordingly a summary of the five Tables which precede it, and shews the almost uncanny precision with which the total of bank deposits varies in accordance with the action of the banks themselves in allowing or cancelling overdrafts, or in making or disposing of investments.

In order to render the comparisons more accurate, the figures taken have been those shewing the average weekly positions during six successive Decembers. It is felt that the selection of the figures for any particular day, such as December 31st, might possibly prove misleading, as temporary influences occasionally

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give rise to deviations from the normal. In the case of four of the smaller banks, however, the average figures were not readily available, and for them the figures given are those for December 31st in each year.

Finally, it is interesting to note, in comparison with the gigantic totals of bank-created credit-money, the comparatively small amount of legal tender in circulation. It is stated in "*The Daily Mail Year Book, 1928*" (page 90), that although

"it is not possible to state definitely the amount of money (currency) in circulation in the country, a study of the official returns enables an expert to give a pretty accurate estimate. The present amount is probably something like the following:—

	£ millions.
Bronze .. ..	8
Silver .. ..	50
Bank Notes .. ..	110
Currency Notes.. ..	300
	<hr/>
	468

And, since the end of 1928, the Currency Notes have been replaced by Bank Notes, leaving the aggregate amount of State-issued money approximately £58,000,000 out of a total of over £2,000,000,000.

## APPENDIX B.\*

### 'ULTIMATE' AND 'INTERMEDIATE' COMMODITIES.

Broadly speaking there are two classes of goods turned out by the producing side of the industrial system. The one class comprises what, for convenience, we will call *Ultimate Commodities*, the things that you and I, as individuals and consumers, require, and the provision of which is the ultimate object of industrial activity. The other class consists of *Intermediate Commodities*, things which you and I, as individuals and consumers, do not use, but which are intended to assist in the production of, or to be eventually developed into the ultimate commodities which we do desire.

Generally it is not difficult to decide at once to which category any particular article or class of articles belongs. For instance, no individual as such really requires a soap-factory: what he needs is soap. If, like soap, the article is designed for the use, if not always for the enjoyment, of individuals, and if it has either already left the producing for the consuming system or is intended to do so on sale, it falls under the head of *ultimate* commodities. But if, like the soap-factory, it is intended to remain in the producing system, merely assisting in the production or distribution of ultimate commodities it is *intermediate*.

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\* Reference, Sect. 20.



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Some goods there are, of course, which can be placed in either class. Take, if you will, the case of a motor-car. If it is used for the pleasure or convenience of a private person, it obviously falls into the category of *ultimate* commodities. But if it is employed for the delivery of groceries, so that the cost of the car enters into and is sought to be recovered in the prices charged for sugar and bacon, biscuits and cheese, then it is simply *intermediate*. In general, therefore, we may say that a boot factory, a railway train, a cinematograph film or coal used for heating a furnace represent *intermediate* commodities. *Ultimate* commodities are typified by a pair of boots, a railway journey, a visit to the pictures, or coal used for domestic purposes.

## APPENDIX C.\*

### THE MECHANICAL MAN.

In the morning papers of October 15th, 1927, there appeared a Press Association Telegram from New York, from which the following is extracted :—

“ A marvellous electrical mechanism known as the ‘mechanical man,’ which obeys the human voice and carries out orders, was exhibited by the Westinghouse Electric and Manufacturing Company. The device responds only to sound, and will do nothing unless addressed in the proper tone. If the tone is too high or too low, or off the key, the so-called man pays no attention.

“ If it is addressed in the correct manner it becomes the perfect subordinate, answering promptly and precisely what is asked of it, and acting at the word of command not only with the promptitude of a soldier on the barrack square, but actually with the speed of electricity.

“ One of these laboratory-made men is so constructed that at the cry of ‘Open Sesame’ it opened a door. Another one lit a series of lights, started an electric fan, turned on a searchlight, operated an automatic sweeper, and started a signal lamp.

“ Newer specimens are being experimented with which will be addressed by means of tuning forks which will be adjusted to emit sounds within the register of the human voice. The present specimens, however, answer questions or execute commands addressed to them on a sound wave of three different frequencies.

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\* Reference, Sect. 22.

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“ There are at present only three members in existence of this electrical fifth estate, and they are already earning bread and butter. Their duties are to keep a check on the reservoirs in connection with the Washington water supply and report the number of feet of water in the reservoirs when they are called up by telephone from the water supply headquarters. The height of the water in the reservoir regulates instruments, so that at a telephonic request for information the machine utters one of its characteristic notes seven, eight, nine, or ten times, according to the height of the water. The installation of these robots has enabled the department to save the expense of three watchmen.”

## APPENDIX D.\*

MESSRS. VICKERS LIMITED.

BALANCE SHEET AT 31ST DECEMBER, 1924.†

(Revised to give effect to reduction of capital of 13/4 per share on Ordinary Shares).

LIABILITIES.			
	As per Balance Sheet at 31st Dec., 1924.	Adjust- ments proposed.	Amount after re- duction of capital.
	£	£	£
Issued Capital—			
Shares—12,315,483 Ordinary shares of £1 each, fully paid .. ..	12,315,483	8,210,322	4,105,161
„ 6,863,807 5% Cumulative Pref. shares of £1 each, fully paid .. ..	6,863,807	—	6,863,807
„ 750,000 5% Preference shares of £1 each, all paid .. ..	750,000	—	750,000
Stock—Preferred 5% Stock ..	750,000	—	750,000
	20,679,290	8,210,322	12,468,938
First Mortgage Debenture Stock			
	£	s.	d.
5% Stock ..	1,250,000	0	0
5½% Stock ..	2,000,000	0	0
	3,250,000	0	0
Add Interest accrued ..	33,697	0	0
	3,283,697	—	3,283,697
Creditors and credit balances ..	3,988,918	2,271,906	6,260,824
Reserve Accounts .. ..	3,600,000	3,600,000	—
Insurance Fund .. ..	59,216	—	59,216
Profit and Loss Account ..	804,544	632,044	172,500
	£32,415,665	£10,170,460	£22,245,205

\* Reference, Sect. 31.

† Extracted by "The Accountant" from "The Financial News."

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ASSETS.			
	As per Balance Sheet at 31st Dec., 1924.	Adjust- ments Proposed	Amount after re- duction of Capital.
	£	£	£
Land, buildings, machinery, tools, plant, etc. . . . .	7,483,802	4,254,994	3,228,808
Interests in subsidiary and con- nected Companies . . . .	17,158,070	5,488,316	11,669,754
Marketable securities—			
Government securities . . . .	2,413,218		
Other securities . . . . .	208,491		
Stock of steel, iron, timber and other material and work in pro- gress . . . . .	1,511,523		
Sundry book debts, including amounts due from subsidiary companies . . . . .	2,915,627		
Cash and bills in hand . . . .	724,934		
		427,150	7,346,643
		£32,415,665 £10,170,460 £22,245,205	

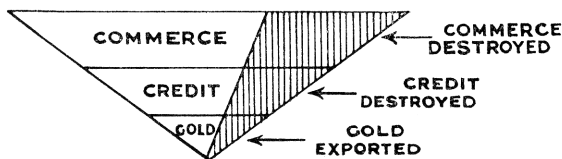
It may be remarked in passing that the writing down of the nominal value of the Ordinary Shares would have little or no effect on their market-value, and only reflected a loss that had already been incurred by the holders. The writing down of Reserves was, however, a more serious matter. Reserve Accounts represent the accumulation of profits withheld from the holders of Ordinary Shares to whom they would normally have been distributed. The ordinary shareholders, who had taken a greater risk with their money in the hope of correspondingly larger profits, thus found that those profits had been withheld from them in order to salvage the Company for the benefit of those who took a lesser risk.

## APPENDIX E.\*

### THE INVERTED TRIANGLE.

Some idea of the danger to our national and international well-being inherent in the foundation of our monetary system upon a gold basis may be gathered from a perusal of Mr. Arthur Kitson's interesting treatise entitled "*A Fraudulent Standard*," from which the following extract is taken†.

"The following illustration of the triangle shows that at present all our huge volumes of credit are piled upon an insignificant amount of gold, so that every golden sovereign represents from twenty to one hundred sovereigns' worth of credit.



"If, therefore, a million pounds of bullion are exported, the banks are compelled to call in all the credit resting on that sum, in order to maintain their so-called margin of safety. Hence the movement of a comparatively small amount of gold or legal tender means the addition to or cancellation of a large volume of currency. Some years ago the '*Bankers' Magazine*' gave a most startling instance of the effect of gold exports upon the prices of our gilt-edged securities.

\* Reference, Sect. 43.

† Pages 153-155.

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During a period of ten weeks a certain group of American financiers drew from the Bank of England sums equal in all to eleven million pounds in gold and shipped it to New York. Prior to this operation these gamblers sold British Securities heavily, and bought United States bonds and shares. The transfer of the gold caused a fall in the prices of 325 of our representative securities, equivalent to £115,500,000, whilst the absorption of this gold caused a corresponding rise in Americans. This illustration explains why a relatively small addition of legal tender can sometimes seriously effect the price level. It is not due so much to the increase in legal tender, but to the disproportionate amount of Bank Credit based upon it. This fact also explains the reason why the values of commodities have become so easily the sport of speculators. The sudden creation or withdrawal of credit, the export of gold from one country to another, is sufficient to ensure certain profits to the cosmopolitan gamblers in finance."

## APPENDIX F\*.

### THE GOLD STANDARD ACT, 1925.

(15 & 16 Geo. V. Cap. 29).

The Gold Standard Act came into operation on 13th May, 1925. The provisions of this Act, the object of which was to facilitate the return to the Gold Standard, are as follows :—

1. (1) Unless and until His Majesty by Proclamation otherwise directs—
  - (a) The Bank of England, notwithstanding anything in any Act, shall not be bound to pay any note of the Bank (in this Act referred to as “a bank note”) in legal coin within the meaning of section six of the Bank of England Act, 1833, and bank notes shall not cease to be legal tender by reason that the Bank do not continue to pay bank notes in such legal coin.
  - (b) Sub-section (3) of section one of the Currency and Bank Notes Act, 1914 (which provides that the holder of a currency note shall be entitled to obtain payment for the note at its face value in gold coin) shall cease to have effect.†
  - (c) Section eight of the Coinage Act, 1870 (which entitles any person bringing gold bullion to the Mint to have it assayed, coined and delivered to him) shall, except as respects gold bullion brought to the Mint by the Bank of England, cease to have effect.

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\* Reference, Sect. 47.

† This paragraph has since been repealed, and replaced by the Currency and Bank Notes Act, 1928, as to which see Appendix “H.”



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(2) So long as the preceding sub-section remains in force, the Bank of England shall be bound to sell to any person who makes a demand in that behalf at the head office of the Bank during the office hours of the Bank, and pays the purchase price in any legal tender, gold bullion at the price of three pounds, seventeen shillings and tenpence halfpenny per ounce troy of gold of the standard of fineness prescribed for gold coin by the Coinage Act, 1870, but only in the form of bars containing approximately four hundred ounces troy of fine gold.

Section 2 of the above Act gives power to the Treasury to borrow any money required for the purpose of exchange operations in connection with the return to a gold standard.

## APPENDIX G.\*

### THE GOLD BASIS IN GREAT BRITAIN AND AMERICA.

Some of the dangers attendant upon a return to the Gold Standard were referred to by Mr. J. F. Darling, a Director of the Midland Bank, in an address to the Manchester Association of Importers and Exporters on December 16th, 1925. In the course of this address, Mr. Darling said—

“Our monetary policy, which has placed us on what is called the gold standard, is regarded by some as having led to a big step forward towards the Economic Unity of the Empire. This, however, is a superficial view, for it has at the same time placed us under the financial domination of the United States of America, which economically and financially is the greatest world power at the present time. . . . .

“One of the chief reasons put forward why we should return to gold was that by so doing we would substitute an ‘automatic’ for a ‘managed’ currency. If this means—and all indications point that way—that the ebb and flow of credit in this country are to depend on the automatic movement of gold, it is then high time we sat up and took notice. . . . .

“Even in pre-war days the gold standard machine did not function with freedom in other countries. In England we had in consequence to submit to very considerable oscillations, especially in the rate of interest. In those days we were rich and held undisputed sway as the world’s financial centre. Therefore, we could afford to stand the racket and the idea became prevalent that anyhow it all came out in the washing.

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\* Reference, Sect. 47.

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"To-day our position is very different, both actually and relatively. It behoves us therefore to take most careful stock of the position and of what other countries are doing. There is no uniformity amongst the so-called gold standard countries as to the amount of currency, and therefore of credit which can be built upon it, that a given amount of gold can create. In England it takes £100 of gold to create £100 of currency. In the United States, in Holland and in Germany £40 of gold can create the equivalent of £100 of currency. Not even in the British Empire is there uniformity. Thus we find that in Australia £25, in New Zealand £33 and in South Africa £40 of gold can create £100 of currency. In Canada there are certain harvesting and other provisions, but on an average the gold cover is greater. However, we may note that Canada is not really on the gold standard. . . .

"I am not going to attempt to work out the possible permutations and combinations that can result from England adopting the 100 per cent. automatic gold standard under existing conditions. In pre-war days the financial supremacy of England was unquestioned. Other countries, including the United States, were within her orbit. Now, the countries of the world, including England, *since we have adopted the gold standard*, are beginning to revolve round the United States, whose financial power, far from being on the wane, has not yet reached its zenith. . . .

"If we are going to fulfil what I fervently hope is to be our destiny and become the centre of a great Empire, I do not believe it can be done under the 100 per cent. automatic gold standard. In the United States we have what looks like an insurmountable obstacle.

"It is true that both countries have agreed to receive and pay gold at a fixed rate in settlement of international balances. But as we may have seen, that is only part of the working of the gold standard. The other, and it may well prove the more important

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## *Appendix G.*

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part, is the effect on credit within the countries which receive or pay out the gold. In this respect there is practically no comparison, for the Federal Reserve system is built on a different basis and is operated in a different way from our own. What then are the salient points of difference?

"In the United States, the basis is not gold alone, but gold and goods (as represented by bills of exchange and promissory notes) and Government securities. Legally, the Federal Reserve banks need keep only 40 per cent. of gold against notes and 35 per cent. of "lawful money" against their deposits, consisting mainly of the balances of the "member banks." Each of the twelve Reserve banks keeps its own cash reserve, which of course varies, but they can borrow from one another. The average ratio of the twelve banks for notes in circulation and deposits is at present about 70 per cent., and the gold held is £550,000,000. This is £280,000,000 more than is legally necessary. Britain, as we know to our cost, is working from hand to mouth in the matter of cash reserves. . . . .

"Federal reserve notes are not the only form of note currency in the United States. There are gold certificates, which represent 100 per cent. gold, and National bank notes, which do not represent any gold but are issued against Government bonds, as well as several smaller issues. At present there are £330,000,000 Federal Reserve notes, £210,000,000 gold certificates and £130,000,000 National Bank notes outstanding. If the gold movement either way assumed very large proportions it could be countered by ringing the changes on these issues. If gold came in too fast, gold certificates could be substituted for Federal Reserve notes, that is a 100 per cent. gold note for a 40 per cent. gold note. Were it thought desirable to mobilise more gold, the reverse operation could be performed. In 1917

large quantities of gold were thus mobilised, while within the last three years gold has been sterilized to a considerable extent. The policy is controlled by the Federal Reserve Board, the majority of the members of which are appointed by the President—it is true for a term of years—with the Secretary to the Treasury as Chairman and the Comptroller of the Currency as Vice-Chairman. The question of making a profit for the shareholders, who are the “member banks” themselves, is a subsidiary one. The Federal Reserve Board act in what they conceive to be the national interests. . . . .

“If we adopt an automatic gold standard in this country, what will be our plight as gold leaves us for America, while it is out of action there, nay, while credit may be so managed as actually to bring about contraction? We would be left to bear the full brunt of deflation. We would not be met even half-way. It would not be a question of undergoing such moderate and temporary deflation as a well-balanced gold standard would produce because it set up an equally moderate and temporary inflation in the country receiving the gold. It would result in a form of intensified deflation, greater and more lasting because brought about under a gold standard that was seriously out of balance. There would have to follow a greater contraction of credit, higher rates of interest, greater uncertainty, with their inevitable effect upon trade and industry and employment. And would this be less serious or more easily borne because it was caused by the *automatic* action of gold in this country?

“For these reasons, then, I would seek to put you on your guard so that perhaps you may be able to take steps to prevent further action being taken towards an automatic gold standard, or rather a semi-gold standard. That such action is contemplated quite soon is pretty obvious. It is following the report of the Cunliffe Currency Committee, which, however,

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contained no reference whatsoever to the relative position of this country and the United States, which has become much more marked since that Report was prepared, and is, in fact, the crux of the situation. The idea seems to be to accumulate more gold at the expense of the tax-payers so that the fiduciary issue of currency may be reduced, to hand over the issue of currency notes to the Bank of England, and then to let the amount of currency, and of credit of which that currency would be the base, depend upon the movement of gold. This, gentlemen, in its far-reaching effects, is by a long way the most important issue before the country to-day. In my humble judgment, to adopt it would be suicidal."

## APPENDIX H.\*

THE CURRENCY AND BANK NOTES ACT, 1928.

(18 & 19 Geo. V. Cap. 13).

The more important provisions of "The Currency and Bank Notes Act, 1928" which came into operation on 22nd November of that year are as follows :—

1. (1) Notwithstanding anything in any Act—
  - (a) the Bank may issue bank notes for one pound and for ten shillings ;
  - (b) any such bank notes may be issued at any place out of London without being made payable at that place, and wherever issued shall be payable only at the head office of the Bank ;
  - (c) any such bank notes may be put into circulation in Scotland and Northern Ireland, and shall be current and legal tender in Scotland and Northern Ireland as in England.
2. (1) Subject to the provisions of this Act the Bank shall issue bank notes up to the amount representing the gold coin and gold bullion for the time being in the issue department, and shall in addition issue bank notes to the amount of two hundred and sixty million pounds in excess of the amount first mentioned in this section, and the issue of notes which the Bank are by or under this Act required or authorised to make in excess of the said first mentioned amount is in this Act referred to as " the fiduciary note issue."
- (2) The Treasury may at any time on being requested by the Bank direct that the amount of the fiduciary note issue shall for such period as may be determined by the Treasury, after consultation with the Bank, be reduced by such amount as may be so determined.

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\* Reference, Sect. 49.

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3. (1) In addition to the gold coin and bullion for the time being in the issue department, the Bank shall from time to time appropriate to and hold in the issue department securities of an amount in value sufficient to cover the fiduciary note issue for the time being. . . . .
4. (1) As from the appointed day† all currency notes issued under the Currency and Bank Notes Act, 1914, certified by the Treasury to be outstanding on that date . . . . shall, for the purpose of the enactments relating to bank notes and the issue thereof (including this Act) be deemed to be bank notes, and the Bank shall be liable in respect thereof accordingly.  
(2) The currency notes to which subsection (1) of this section applies are in this Act referred to as "the transferred currency notes."  
(3) At any time after the appointed day, the Bank shall have power, on giving not less than three months' notice in the London, Edinburgh and Belfast Gazettes, to call in the transferred currency notes on exchanging them for bank notes of the same value. . . . .
5. (1) On the appointed day, in consideration of the Bank undertaking liability in respect of the transferred currency notes, all the assets of the Currency Note Redemption Account other than Government securities shall be transferred to the issue department and there shall also be transferred to the issue department out of the said assets Government securities of such an amount in value as will together with the other assets to be transferred as aforesaid represent in the aggregate the amount of the transferred currency notes. . . . .
6. (1) The Bank shall, at such times and in such manner as may be agreed between the Treasury and the Bank, pay to the Treasury an amount equal to the profits arising in respect of each year in the issue department.

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† 22nd November, 1928.



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- (2) For the purposes of this section the amount of the profits arising in any year in the issue department shall, subject as aforesaid, be ascertained in such a manner as may be agreed between the Bank and Treasury. . . .
7. (1) If the Bank at any time represent to the Treasury that it is expedient that the amount of the fiduciary note issue shall be increased to some specified amount above two hundred and sixty million pounds, the Treasury may authorise the Bank to issue bank notes to such an increased amount, not exceeding the amount specified as aforesaid, and for such period, not exceeding six months, as the Treasury think proper.
- (2) Any authority so given may be renewed or varied from time to time on the like representation and in like manner; provided that notwithstanding the foregoing provision, no such authority shall be renewed so as to remain in force (whether with or without variation) after the expiration of a period of two years from the date on which it was originally given, unless Parliament otherwise determines.
- (3) Any minute of the Treasury authorising an increase of the fiduciary note issue under this section shall be laid forthwith before both Houses of Parliament. . .
- II. (1) With a view to the concentration of the gold reserves and to the securing of economy in the use of gold, the following provision of this section shall have effect so long as sub-section (1) of Section One of the Gold Standard Act, 1925\* remains in force.
- (2) Any person in the United Kingdom owning any gold coin or bullion to an amount exceeding ten thousand pounds in value shall, on being required so to do by notice in writing from the Bank, forthwith furnish to the Bank in writing particulars of the gold coin and bullion owned by that person, and shall,

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\* Appendix " F."

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## Appendix H.

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if so required by the Bank, sell to the Bank the whole or any part of the said coin or bullion, other than any part thereof which is *bona fide* held for immediate export or which is *bona fide* required for industrial purposes, on payment therefor by the Bank, in the case of coin, of the nominal value thereof, and in the case of bullion, at the rate fixed in Section Four of the Bank Charter Act, 1844.

12. If any person prints, or stamps, or by any like means impresses on any bank notes any words, letters or figures, he shall, in respect of each offence, be liable on summary conviction to a penalty not exceeding one pound.

13. (1) This Act may be cited as the Currency and Bank Notes Act, 1928.

(3) In this Act, unless the context otherwise requires :  
The expression "the Bank" means the Bank of England ;

The expression "issue department" means the issue department of the Bank ;

The expression "Bank note" means a note of the Bank ;

The expression "coin" means coin which is current and legal tender in the United Kingdom ;

The expression "bullion" includes any coin which is not current and legal tender in the United Kingdom.

## APPENDIX I.\*

### THE REPEAL OF THE SHERMAN SILVER PURCHASING ACT.

The extent to which those who are in a position to control financial policy have it in their power to affect national policy in their own interests is illustrated by the following quotation taken from a pamphlet entitled "*Industrial Depression*," published by Mr. Arthur Kitson in the year 1905.

"In 1892, Grover Cleveland was elected President of the United States on practically a free-trade or low-tariff platform. At that time the currency of the United States consisted . . . principally of paper and silver. But a bill had been passed under the former Republican administration authorising the Government to purchase six million dollars' worth of silver per month, and coin it or issue paper notes against it. The result was a regular addition to the currency of the nation—an addition which the continual growth of trade evidently required. The measure was put into operation and no difficulty arose until after the inauguration of President Cleveland. . . . Congress was summoned and a message from the President read, asking for the repeal of the Silver Purchasing Act. Congress refused and was thereupon dismissed. A convention of the leading New York bankers was then called and word sent to every National Bank throughout the United States to attack credit, for the purpose of giving the people what the bankers termed an "object lesson." A crisis was to ensue, and the Press was told

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\* Reference, Sect. 62.

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## *Appendix I.*

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to inform the people that the cause was the Sherman Silver Purchasing Bill.

"The following is a copy of the confidential circular sent to all the National Bankers :—

'Dear Sir,—The interests of National Bankers require immediate financial legislation by Congress. Silver, certificates and treasury notes must be retired and the National Bank notes upon a gold basis made the only money. This requires the authorisation of from \$500,000,000 to \$1,000,000,000 of new bonds as a basis of circulation. You will at once retire one-third your circulation and call in one-half your loans. Be careful to make a money stringency felt among your patrons, especially among influential business men. Advocate an extra session of Congress for the repeal of the purchase clause of the Sherman law; and act with the other banks of your city in securing a large petition to Congress for its unconditional repeal, as per accompanying form. Use personal influence with Congressmen; and particularly let your wishes be known to your Senators. The future life of National Banks as fixed and safe investments depends upon immediate action, as there is an increasing sentiment in favour of Governmental legal tender notes and silver coinage.'

"The conspiracy—one of the cruellest and most scandalous in the history of the Republic—was successful. Credit, upon which industry is built, was shaken, and the public—ignorant of these questions—particularly such an abstruse one as the currency—accepted the reasons offered by the Press and demanded their Congressmen to vote for the repeal of the bill. In the Autumn of 1893 the Silver Purchasing Bill was repealed."

## APPENDIX J.\*

### THE FIRST PRICE FACTOR.

The question of the actual numerical value of the first price factor was discussed in an appendix to the writer's former work, "*The Community's Credit*," from which the following extract is taken:—

"If the aggregate purchasing-power immediately available at the present day was such that there was no 'Market-Topheaviness,' then we should be faced with a comparatively simple task. We should select our period (say, for instance, one year), calculate the gross consumption of Real Wealth during that period, and the simultaneous gross production thereof, and an elementary division sum would supply the price-factor. But we know that, very far from there being no market-topheaviness, there is indeed a serious discrepancy existing at the present day between the total available purchasing power and the total charges against such purchasing-power. This fact affects the situation considerably. In determining the first price-factor it is necessary to take into consideration, not only the present tendency to market-topheaviness caused by contemporary industrial expansion, but also, an equally serious matter, the accumulated topheaviness which is our heritage from past decades. So the question of the actual numerical value of the first price-factor must be approached from a rather different standpoint.

"Let us assume that our Industry can, in its present state of development, if called upon, turn out as much as four times its present normal output. Output,

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\* Reference, Sect. 75.

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## *Appendix J.*

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to-day, is limited by lack of effective demand. Effective demand is limited by lack of purchasing-power. If, then, the amount of purchasing-power in the hands of consumers was increased to four times its present amount, and at the same time means were taken to prevent a corresponding rise in prices, effective demand would also rise, to something less than four times what it is to-day. Nor would this increased effective demand be in excess of Industry's capacity to meet it.† . . . .

"We might, then, conceivably inaugurate the Social Credit era with a price-factor of one-quarter, and this is the fraction generally suggested when the actual working of the "Just Price" is under discussion. If the Social Credit proposals are, as a beginning, only to be applied to one particular industry, and the initial price-factor is intended to be applied to the products of that industry only, there would seem no possible objection to the adoption of this figure. But if the initial price-factor is to have an extensive or national application, then it is submitted that the advisability of such a sudden and drastic expansion of purchasing-power must be considered very seriously from a psychological and practical point of view. . . . .

"We can, first of all, be morally certain that a sudden great expansion of purchasing-power would lead to a drain upon the stocks held by retailers to an extent that industry, not yet fully revitalised, might for the moment be unable to replace. There would follow a disorganisation that might do as much harm as the evils it was intended to remedy. At the very least it would give the new system a somewhat inauspicious start. There is also a danger that this new-found economic liberty if too precipitately entered upon, might, as has so often happened before in cases of

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† It has been estimated by Mr. H. L. Gantt that in America the Industrial Efficiency is only about 5%. An Industrial Efficiency of at least 75% ought to be well within the bounds of possibility.

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too sudden realisation of freedom or wealth, lead to the natural abuses of reaction. Instead of there being an immediate and progressive, if gradual revival of industry, a diametrically opposed effect might be produced. When changes of a fundamental nature are to be made, it is well that they be gradual. "On the other hand, however, a more moderate reduction of, say, 20% off prices could only do good. Therefore it is here submitted that, if the first price-factor is not to be merely of local application or confined to one particular industry (in which case it might well be fixed at *one-quarter*), but is rather to be of national application, it should be fixed at, say, *four-fifths* or *three-quarters*, and the first accounting period at one year or even longer. During that first period, our productive capacity would have been more and more fully utilised and, fostered by increased effective demand, greatly extended. So, gradually and successfully the whole system would enter its stride."

## APPENDIX K.

### BIBLIOGRAPHY.

Books and pamphlets dealing with what may, in contradistinction to the old orthodox economic theory, be comprehensively termed the "New Economics" are by no means rare. Indeed, so voluminous and varied has the new economic literature become that here it is only possible to enumerate the more important publications.\*

#### I.

A large and informed literature, both critical and explanatory, has been developed in connection with the "Social Credit" theories of Major C. H. Douglas. Among these the following books may be specially mentioned :—

CAPT. W. ADAMS., B.Sc.(Econ.), B.Com.

"Real Wealth & Financial Poverty." (Cecil Palmer. 7/6.)

This highly informative work presents the existing financial system as a monopoly of money and, from the point of view of Major Douglas' analysis, traces its relation to productive industry, social poverty, and economic war. An invaluable book for those who wish to understand more fully the detailed working of the present system. (1925).

MAJOR C. H. DOUGLAS, M.I. Mech. E.

"Economic Democracy." (Cecil Palmer. 5/-)

"Credit Power and Democracy." (Cecil Palmer. 7/6).

"The Control and Distribution of Production.

(Cecil Palmer. 7/6).

"Social Credit." (Cecil Palmer. 7/6).

In the first two volumes, both published in 1920, Major Douglas propounds his now well-known analysis of the

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\* Any of the books or pamphlets mentioned in this Appendix can be obtained from the Credit Research Library, 70, High Holborn, London, W.C.1.



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economic conditions prevailing in any modern industrial community, and lays down certain basic principles upon which he claims must be sought the solution of the tremendous problem these conditions present. The third volume published in 1922, is a restatement of Major Douglas' views from various standpoints and consists largely of lectures and articles delivered or written by him during the previous three years, dealing with topics of current interest. The fourth volume was published in 1924, and deals more essentially with the philosophy of life underlying the ideals of Social Credit.

C. MARSHALL HATTERSLEY, M.A., LL.B.

"The Community's Credit." (Credit Power Press, 70, High Holborn. 5/-).

In this little volume the writer deals specially with those difficulties that arise most frequently upon a first examination of the Social Credit proposals. (1923).

ARTHUR KITSON.

"Unemployment: The Cause and a Remedy." (Cecil Palmer. 5/-).

Here the author, a well-known writer on economic subjects for many years and a pioneer in new economic thought, advocates the solution of the unemployment problem along the lines suggested by Major Douglas. (1921).

MAJOR A. E. POWELL.

"The Deadlock in Finance." (Cecil Palmer. 5/-).

A book which is intentionally elementary in character and which deliberately avoids any detailed exposition of the Social Credit theories. As an introduction to a closer study of these theories and as an explanation of what money is, and, perhaps more important still, what money is not, this little book can be highly recommended. (1924.)

W. H. WAKENSHAW, M.A.

"The Solution of Unemployment." (Reid & Co., Newcastle. 10/-).

A comprehensive survey of the problems of modern industrial civilisation. A volume full of interesting and relevant information. (1924).

In addition to the books enumerated above attention must be drawn to the following pamphlets, priced at 6d. each:

ARTHUR BRENTON.

"The Veil of Finance."

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## Appendix K.

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C. H. DOUGLAS.

"The World after Washington."

C. F. J. GALLOWAY.

"Poverty amidst Plenty."

C. M. HATTERSLEY.

"Men, Machines and Money."

H.M.M.

"An Outline of Social Credit."

In this connection must also be mentioned "*The New Age*"† a weekly review of Art, Politics and Literature, and "*The Age of Plenty*,"\* the chief feature of both of which papers is their exposition of current events in the light of Major Douglas' analysis and theories.

## II.

In addition to works dealing more particularly with the analysis and theories of Major Douglas, there have of late years been published a number of volumes whose outlook places them definitely among "new economic" literature. Of these the following are perhaps the most noteworthy.

J. P. HILTON.

"Britain's First Municipal Savings Bank." (Blackfriars Press. 1/6).

An account of the formation, progress and success of the Birmingham Municipal Bank. Truly "the romance of a great achievement." (1927).

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† 7d. weekly. Owned and published by Arthur Brenton, 70, High Holborn, London, W.C.1.

\* 2d. monthly. Owned and published by H. E. B. Ludlam, 12, Grantham Street, Coventry.

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C. P. ISAACS.

"The Menace of Money Power." (Jonathan Cape. 8/6).

Contains a valuable account of the growth of the present banking system (1921).

E. M. H. LLOYD.

"Stabilisation." (Allen & Unwin. 4/6).

An interesting and informative book whose author seeks a remedy for present conditions in a programme of currency reorganisation for stabilising the general level of prices by co-operation between Central Banks (1923).

P. W. MARTIN.

"The Flaw in the Price System." (P. S. King. 4/6).

The chief value of this book lies in its analysis of the underlying fallacy vitiating the present costing system. The flaw in the price system is at the bottom of most of the material and a good many of the moral troubles of our time. (1924).

RT. HON. REGINALD McKENNA.

"Post War Banking Policy." (Heinemann. 7/6).

A republication in handy form of the valuable speeches delivered by Mr. McKenna at the Annual Meetings of the Midland Bank, forming a useful guide to the tendencies of modern banking policy. (1928).

PROF. FREDK. SODDY, M.A., F.R.S.

"Wealth, Virtual Wealth and Debt." (Allen & Unwin. 10/6).

An attempt to obtain a physical conception of wealth that will obey the physical laws of conservation. The principal conclusions reached have been set out in the present book. (1926).

JOHN STRACHEY.

"Revolution by Reason." (Leonard Parsons. 2/6).

The gist of "the Birmingham Proposals" has been set forth in the present work. They are receiving much attention from various sections of the Independent Labour Party. (1926).

From a large number of smaller works the following pamphlets are selected as being of especial interest:

J. F. DARLING.

"The Economic Unity of the Empire." (1/-).

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PROF. SODDY.

“Cartesian Economics.” (6d.)

“The Inversion of Science.” (6d.)

“The Wrecking of a Scientific Age.” (6d.).

HUGH P. VOWLES.

“The Web of Finance.” (1/-).

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