

Wealth, Want and War

by

C. Marshall Hattersley

WEALTH, WANT AND WAR

BY THE SAME AUTHOR
THE COMMUNITARIAN
THE PEOPLE'S FUTURE
IN EQUITY
Manning, John Hay

WEALTH, WANT AND WAR

WATERLOO CO-OPERATING CENTRE

BY THE SAME AUTHOR

BOOKS

THE COMMUNITY'S CREDIT

THIS AGE OF PLENTY

PAMPHLETS

MEN, MACHINES AND MONEY

ABERHART AND ALBERTA

THE PEOPLE'S PURSE

In Esperanto :

Masinoj, Mono Kaj Mondpaco

WEALTH, WANT AND WAR

—*Problems of the
Power Age*—

by

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

THE SOCIAL CREDIT CO-ORDINATING CENTRE,
MONTAGUE CHAMBERS,
MEXBORO,
YORKS., ENGLAND.

WEALTH, WANT AND WAR

— Problems of the
Poverty Areas —
by
J. H. B. PHILLIPS
with an introduction by
the author

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M. A. L. B.

THE SOCIAL CREDIT CO-ORDINATING CENTRE
WIMBORNE TRAMWAY
WIMBORNE
DORSET, ENGLAND

FOREWORD

Encouraged by the welcome given to "*This Age of Plenty*," which reached its fifth edition in a little over four years, I am tempted once again to expound the fundamental possibility of plenty in this age of power. The opportunity was taken as each edition of "*This Age of Plenty*" appeared to revise the text and to add new matter in the hope of rendering the book more generally helpful and complete. Yet there are still many illustrations, examples and arguments I would gladly add were it not that the book is already almost too long for its purpose. I have therefore thought it better to incorporate them in a new and different book.

The old framework is here : to some extent the old arguments are used : the old conclusions are reached. But nearly all the material is new, and the additional illustrations and arguments will, I hope, clear up finally all difficulties not entirely removed by "*This Age of Plenty*." The old skeleton is here, but the flesh and the blood are different, and those who appreciated "*This Age of Plenty*" will not find herein much repetition. Those who have not met the former book will doubtless find this present volume sufficiently complete in itself.

I desire to acknowledge the help and inspiration given by my wife in the preparation of this book and the permission so readily granted by G. D. H. Cole, Esq., Messrs. Victor Gollancz and the Midland Bank to include somewhat extensive quotations from their writings and publications. To these, and to all others from whom I have taken the liberty of quoting, and also to the many friends who have assisted by their encouragement, I offer my most grateful thanks.

C.M.H.

Swinton,

Nr. Rotherham.

October, 1937.

FOREWORD TO SECOND EDITION

It is because of the great awakening of interest in Social Credit all over Canada that this new edition is called for. I have made no attempt to bring it "up-to-date." It was written in industrial Britain when that country was clogged with needed goods which it found so much easier to produce than to distribute for consumption.

For the newer countries, the message and the warning here contained are as applicable as on the day when they were first written. For such countries the power of decision still rests in their own hands. They can choose to follow the familiar pattern of the Old World, made inevitable by adherence to the principles of Orthodox Finance. Or they can take the lesser risk of pioneering on the economic front, as Alberta is doing in the limited field over which her Government has control. Social Credit is the balanced middle way between the extremes of Capitalist and of State monopoly.

My husband lived long enough to see at first hand how the Social Credit seed—scattered apparently on very stony ground—had blown overseas, and was taking firm and healthy root and spreading fast in the fruitful soil of Western Canada. Before leaving England he had felt that many years must pass before any Age of Plenty dawned again on the Old World. It was all the more cheering for him to be able to live for a time where Social Credit had for long ceased to be theory only, and had become a matter of practical politics.

E.V.H.,

Edmonton, Alberta.

September, 1953.

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INTRODUCTION

The subject of monetary reform, and particularly that branch known as Social Credit, has during the past few years assumed a great and growing importance. Unfortunately many people distrust their ability to grasp a subject which seems to them so vast in scope and so bewildering in detail, and hesitate to devote to it the time or mental energy which they would be quite prepared to expend if they felt sure that they would be any wiser in the long run. Others, entering upon this unfamiliar field of enquiry without plan or perspective, soon become discouraged as they grope their way among a welter of data of very varying significance.

When learning about a new country, it is convenient to consult a map to see where the various districts lie, where the mountains rise, where the rivers run and whither the main roads lead. For this a map which shows only the more salient features is most useful : afterwards a large scale map will supply details to fit into a comprehensive picture of the whole. So in the field of economic theory we must get our general bearings before discussing the subject in its many branches.

Our enquiry falls naturally into five main divisions, following a logical sequence. Some people are inclined to say, " We'll admit straight away that our economic system needs overhauling. Don't bother to labour that point. Tell us what you think should be done about it." But such an attitude of mind, though natural, is a wrong one. A doctor, before he prescribes for a patient, needs to know more than that the patient is ill. He has to have a

clear idea of the nature of the complaint, otherwise his prescriptions may merely aggravate the disease. Those who operate our economic mechanism at the present time are aware that the condition of the body politic is dangerous, but they have no clear idea of what is wrong. They accordingly try out their various remedies in turn—inflation, deflation, reflation, saving, spending, restriction, stabilisation, rationalisation, quotas, tariffs—one after the other or several together in apparently haphazard succession, just as some quack doctor might proceed alphabetically through his whole pharmacopoeia, hoping for the patient to recover before he dies.

It is therefore absolutely necessary to commence our study with an examination of the *present position*, not only recognising that the patient is ill, but making a definite diagnosis of the complaint, analysing the symptoms and avoiding, if possible, any tendency to jump to conclusions.

Having analysed the symptoms and diagnosed the complaint, it is hardly possible to pronounce a satisfactory course of treatment without an understanding of what the body politic would be like if in a thoroughly healthy condition, in order that the treatment may be deliberately aimed at achieving such a result. Until, therefore, we have satisfied ourselves as to the true *purpose* of economic organisation, there can be little reliance on any prescription we may offer.

Effective treatment, whether medical or economic, must be based on right principles, so that, having analysed the present position and satisfied ourselves as to what we really desire of our economic organisation, we come to a consideration of the *principles* which must underlie any prescription that is to be effective. These underlying principles are the core of the whole matter. If the principles are sound, there should be no insurmountable

difficulty in applying them to our economic life. But if they are unsound, any reorientation of our economic life in conformity with them will also be unsound and unsatisfactory.

When principles have been established, some policy is required to carry them into operation. It must be remembered, however, that policy, though important, is not so vital as the principles on which it is based. There may be many policies, of greater or less efficacy, for carrying out given principles. Principles endure, but a policy suitable to one generation or country may be quite unsuited to the circumstances of another age or nation. In its turn, then, we shall discuss *policy*, and particularly that twofold policy of monetary reorganisation known as Social Credit with its Just (or Compensated) Price and its National Dividends.

Only at this comparatively late stage can we fitly discuss *practical proposals* for putting policy into operation. Just as there may be more than one policy embodying certain definite principles, so there may be more than one way of putting an accepted policy into operation. And just as principles are more enduring and more vital than any particular policy embodying them, so the policy to be adopted is, at any rate in the initial stages, of far more consequence than any actual scheme or plan.

The essential distinction between principles, policies and proposals can be illustrated by reference to the steam engine. The principle underlying the use of steam as a source of power is that steam when heated expands and can be used to exert pressure. The policy generally adopted for using this pressure is to expand steam within a closed cylinder, thereby bringing pressure to bear on a piston whose movement causes a wheel to revolve. The practical application of that policy has taken numerous

forms, ranging from the elementary stationary engines that Watt constructed to the gigantic locomotives of the present day.

And now, having glanced at our general map and seen the main features of the route to be followed, we can turn to our large-scale plans and study the various areas in more detail. But before we do so, there is one other matter to which it may be well to refer. Someone—we know not who—has defined an economist as one who continually knows more and more about less and less until he ends by knowing everything about nothing : and he has defined a politician as one who continually knows less and less about more and more until he ends by knowing nothing about everything. If that is so, the author of a treatise on political economy would appear to be in double danger, and although it has been the writer's endeavour in the pages that follow to steer a middle course, dealing adequately with the more important problems of this Age of Power, he realises that not every reader will agree that he has succeeded. Accordingly, to meet the convenience of those readers who require a more general survey, certain sections have been marked with a line in the margin to denote that they can be "skipped" without affecting the continuity of the argument. Those who intend to make a deeper study of these matters will no doubt wish to read the marked sections, although it is suggested that they, too, might with advantage omit such sections until a second reading of the book as a whole.

THE COMING OF THE NEW POWER

SOCIAL CREDIT

PRESENT POSITION
Widespread Unemployment

Industry stagnant, awaiting orders; workers waiting wages; business districts deserted; Government's financial resources exhausted; Government's credit rating lowered; Government's credit rating lowered; Government's credit rating lowered.

PART ONE

PURPOSE
To show the need for a new system of social credit, and to show how it can be established.

PRINCIPLES
The principles of social credit are based on the following assumptions:

THE PRESENT POSITION

The present position of the world is one of deep depression. The world is suffering from a general shortage of money, and this shortage is causing a general depression of business. The world is suffering from a general shortage of money, and this shortage is causing a general depression of business. The world is suffering from a general shortage of money, and this shortage is causing a general depression of business.

PROPOSALS
The following proposals are suggested for the relief of the world's financial distress:

1. The establishment of a new system of social credit.
2. The establishment of a new system of social credit.
3. The establishment of a new system of social credit.

SOCIAL CREDIT

PRESENT POSITION	<p>Potential Plenty—Actual and Relative Poverty— Widespread Unemployment.</p> <p>Industry stagnant, awaiting orders ; needy customers awaiting wages, salaries, dividends.</p> <p>Machinery creating leisure, involuntary and unpaid. Increasing inability to recover "costs" through prices.</p> <p>Financial domination.</p>
PURPOSE	<p>Satisfaction of material requirements through proper utilisation of resources.</p> <p>Economic Independence.</p>
PRINCIPLES	<p>Equation of potential effective demand with capacity to supply.</p> <p>Distribution of goods progressively less dependent on "work."</p>
POLICY	<p>Stimulation of consumers' demand by State issues of money corresponding to industrial requirements, through (a) Reimbursement for sale at real cost</p> $= \text{financial cost} \times \frac{\text{consumption}}{\text{production}}$ <p style="text-align: center;">= Just Price</p> <p style="text-align: center;">(b) National Dividends.</p>
PROPOSALS	<p>According to circumstances.</p>

Chapter I

THE COMING OF THE POWER AGE

Man, the Creator—Early Engines—Power-Machinery—
Agricultural Development—The New Environment—The
Novelty of Power—Poverty—Minimum Needs Scales—
Malnutrition and Overcrowding—Unemployment.

(1)

The story of life on this planet, so far as we are able to reconstruct it, has from the beginning been one of struggle with environment. The species which have survived are those which have contrived to adapt themselves to their circumstances. Failure to do so has always ended in extinction.

The history of the human race is, however, more than the story of adaptation to environment. It is also the story of the conscious formation of environment. Other species have taken their surroundings as they found them, and made the best of them. The bear grew a shaggy coat to keep out the cold. But Man put on clothes and lit fires. Man to-day is largely responsible for his own surroundings. His story is the story of triumphs and discoveries—the conscious gaining of knowledge and power.

A tremendous change in the conditions of political and social life was brought about by the discovery and use of writing. Another great step forward was the introduction of animals as means of transport, followed by the use of wheeled vehicles and the construction of roads. Then came the discovery and use of metals—the bronze age and the iron age. In course of time there followed the invention of money, a convenient but dangerous device producing a complete change in the nature of debt, ownership and

trade. Empires grew as the natural consequence of easier and swifter communication and of the increased military efficiency which resulted from the use of iron. Men's ideas grew correspondingly. Local gods tended to disappear in face of the great monotheistic world religions. Then came the beginnings of recorded history and geography, when Man first realised his profound ignorance and began a systematic search for knowledge.

Centuries later Man entered definitely and consciously upon a new phase in his development.

"It drew its inspiration from the very slowly made discovery that the human brain was able to frame impersonal hypotheses which seemed adequately to explain events. Previously the external world had for the most part appeared to Man as a mere chaos of utterly irrational happenings. He dared to move through it only along the narrow path of tradition, and at every step custom ordained ceremonies and sacrifices to propitiate the gods of his imaginings. It was common for men to decide important courses of action on the basis of omens, lucky and unlucky days, the changes of the moon, the relative positions of the planets. . .

"And then into this hopeless outlook came by way of mathematics, mechanics and chemistry the "Great Discovery" . . . Euclid when he deduced plane geometry from his definitions and postulates, Gallileo when he found that he could frame rational laws which moving bodies obeyed, and Dalton when his reasoning had reduced to order the seeming chaos of chemical combinations, did not dream that they were laying the foundations of a new epoch in human life. To Man, who for untold centuries had grovelled in fear and wasted his substance in propitiation, it was an amazing and entirely unexpected thing to find that his brain was so constituted that it was able to create inner worlds of reason, which did actually, and with but few gaps which he seemed always able to bridge,

correspond to immense groups of external facts. Over an ever increasing range of his activities it gave him the key to the relations between cause and effect. It made him a creator.”*

(2)

We have become so accustomed to dating the commencement of our present industrial era from the steam-engine designed by James Watt, that it may be surprising to some people to learn that Watt was by no means the first to construct an engine driven by steam. The first recorded steam-engine was that of Hiero of Alexandria (B.C.160). This was a primitive steam-reaction turbine, pivoted on a central axis and receiving steam through one of the pivots. But from the time of Hiero there appears to have been little or no progress in this field for over seventeen centuries. The great thinkers of the intervening period were more concerned to arrange in order the traditional (and not infrequently mistaken) beliefs of their contemporaries than they were to carry out new analysis or induction. But from the sixteenth century onwards, as a by-product of the Renaissance, a steadily increasing series of inventions and discoveries was made. Imbued with the general thirst for knowledge, many inventors turned their genius to the construction of steam-engines. One of the first was Giovanni Battista della Porta (1601), but it was Thomas Savery who, in 1698, first made steam engines that were in any measure commercially successful, and Desaguliers who first applied the safety valve.

“The use of the cylinder and piston (long before applied to pumps) in a heat engine was first suggested by Jean de Hautefeuille in 1687, gunpowder being used to make the explosion. Denis Papin’s (1690)

* From “*The Time Machine of Dr. Barton*,” by John Hodgson, quoted in “*The Great God Waste*.”

was, however, the earliest cylinder and piston steam-engine, and his plan of using steam was that which afterwards took practical shape in the atmospheric engine of Thomas Newcomen (1705), which began to be introduced for pumping mines six years later. Newcomen's engine apparently held the field until James Watt (a Glasgow instrument maker) so improved upon it as to render it obsolete."*

The principal reason why Hiero and his contemporaries were unable to turn their steam-engine to practical use was because they lacked the necessary materials. A steam-engine constructed with the materials then available, however cunningly designed, could hardly be more than an ingenious toy. And this remained true until many years after the Renaissance. However, in due course, as H. G. Wells reminds us, †

"the progress of physical science reacted upon metallurgy. Improved metallurgy, affording the possibility of a larger and bolder handling of masses of metal and other materials, rested upon practical inventions. Machinery on a newer scale and in a new abundance appeared to revolutionise industry . . .

"Before the middle of the eighteenth century iron was reduced from its ores by means of wood charcoal, but handled in small pieces, and hammered and wrought into shape. It was material for craftsmen, and quality and treatment were enormously dependent upon the experience and sagacity of the individual ironworker. The largest masses of iron that could be dealt with under these conditions amounted at most (in the sixteenth century) to two or three tons. (There was a very definite upward limit, therefore, to the size of cannon). The blast furnace rose in the eighteenth century and developed with the use of coke. Not before the eighteenth century do we find

* From "*The Omnipotent Machine*," by W. F. Watson.

† In "*A Short History of the World*."

rolled sheet iron (1728) and rolled rods and bars (1783). Nasmyth's steam hammer came as late as 1838.

"The ancient world, because of its metallurgical inferiority, could not use steam. The steam-engine, even the primitive pumping engine, could not develop before sheet-iron was available. The early engines seem to the modern eye very pitiable and clumsy pieces of ironmongery, but they were the utmost that the metallurgical science of that time could do."

(3)

James Watt produced his steam engine in 1769, during a period in which great changes were being brought about in industry as the result of scientific research and the consequent development of new types of machines. This was particularly so in the cotton industry. In 1738 John Kay had invented his flying shuttle. In 1764 Hargreaves had produced his "spinning jenny." In 1769 Arkwright developed his method of spinning by rollers driven by water-power. Then Crompton in his "mule" combined the principles of both Hargreaves and Arkwright's inventions. In 1785 Cartwright revolutionised the process of weaving by the introduction of his power-loom.

The same is true, but to a lesser degree, of other industries. New machines demanded new power—a demand that Watt's engine was at hand to meet. From that time onwards inventions and discoveries have followed each other with bewildering rapidity. New power has made new machines possible, and new uses for power have led to the discovery and development of new sources. The use of gas was first made popular by the successful lighting of Westminster Bridge in 1813. Gas was a new source of power. Then came the discovery of electricity, and with it came the possibility of sending power along a

wire, to be transformed at will into heat or light or mechanical motion. In the eighteen-eighties there came into use the internal combustion engine in which the expansive force of steam was replaced by the force of explosion. Such engines were highly efficient and were in due course developed to such a pitch of lightness in comparison to power generated that flight, from being a fantastic dream, became an accomplished fact.

That which chiefly distinguishes the era which commenced with the so-called Industrial Revolution of the late eighteenth century is not that man now possesses machines where previously he had none—although his machines are now immeasurably greater in efficiency and variety—but the fact that he now has control of forces unknown in earlier years. The present age is essentially a power age. To call it “the machine age” is natural but rather misleading. Undoubtedly man is now able to command a variety of machines undreamed of 150 years ago—but a machine or a tool can do nothing until energy is supplied to set it going. It requires power. The earlier machines were mostly extensions of the human body. Men had used hammers to drive in nails, but the power to drive the hammer was supplied by themselves. Men had used levers to raise great weights, but generally speaking the power to move the lever was human muscle. The power-driven machine is an entirely different thing. It does not magnify the effect of human effort ; it displaces it.

(4)

It is sometimes suggested that although the power to produce manufactured articles has increased astonishingly and rapidly, yet no comparable advance is to be found in agriculture. As a matter of history, agriculture was probably the first of our industries to be affected by the

scientific spirit. Until the eighteenth century, arable land had in most districts been sown with corn for two years and then left fallow for a year in order to allow it to recover its fertility. The four-year rotation of crops (wheat, grass, oats, roots) developed by George I's minister, "Turnip" Townshend, on his Norfolk estates, was generally adopted throughout the country towards the end of that century. Land no longer needed to lie fallow. The root crop, instead of exhausting the soil, actually improved it, and not only that—the roots were available for feeding cattle and sheep during the winter months, whereas formerly the bulk of the stock had had to be killed in the late Autumn. Consequently there was more manure, and the fertility of the land increased still further.

Scientific stock-breeding developed. New types of artificial feeding were discovered. By 1800 the average weight of sheep was nearly three times and of cattle more than twice what it had been a hundred years before.

Waste lands were reclaimed. Common lands and open fields were enclosed. The resulting disturbance of the rural population brought in its wake much misery and unrest, but it has been estimated that the productivity of the enclosed areas increased at least fivefold.

It is not necessary to trace the progress of agriculture through the 19th century, but the early years of the 20th century have the same tale to tell.

"In 1898 Sir William Crookes in his presidential address before the British Association estimated that Canada could never produce more than 228,600,000 bushels of wheat; she produces to-day more than 500,000,000. He said that no extension of the world's cultivable area was to be looked for; but figures, published by the Board of Agriculture, show that the wheat area of the main wheat-producing countries was, between 1901 and 1911, increased from

200,930,000 acres to 247,000,000 acres, and it is only the lack of will which has prevented a proportionate increase in the area in Great Britain. . . . The Mac-Millan Report tells us that the world's production of food-stuffs increased by 16% between 1913 and 1928.

"Anyone who doubts the possibility of increasing the productivity of British agriculture should study the very interesting facts and figures given by Sir John Russell in his '*Land and the Nation*.' Owing to Stapleton's works on grass strains and other discoveries, grass land can now be made productive in its first year. The total acreage of apple orchards in the West of England has decreased since before the War, but the yield of apples has increased. Twenty-five years ago a hen laid on the average 72 eggs, now it lays over 100. Sir John Russell reports that at Rothamstead, in 1932, they obtained 340 lambs from 223 ewes where in the old days they only got 250. A cow, in the lactation period, used to give from 200 to 300 gallons of milk; now the average yield is 416 and many cows give as much as 1,500 or even more. Modern machinery can plough ten acres in a day where the horse-drawn plough was proud if it did one; it can harrow 130 to the horse's eight or ten. There can hardly be a doubt that artificial manure, which is but in its infancy, is destined to increase the yield per acre of almost every sort of crop. '*The air of an ordinary-sized sitting room*,' writes Sir John Russell, '*contains enough nitrogen to grow food for a man for a whole year*.'"*

(5)

It is not only in mechanical devices and agriculture that mankind has effected a virtual revolution. Means of communication have developed equally amazingly. Railways and steamships reduced the time of travel fantastically, but air-transport has made the train and the

* From "*The Breakdown of Money*," by Christopher Hollis at pp. 107/8/9.

liner seem comparatively slow. The reorganised post-office of 1840, with its cheap and speedy delivery of letters, seemed amazingly efficient—but to-day events are reported on the wireless almost before they happen, and by the telephone men are brought into direct speech with their fellows in the most distant parts of the earth. Nor must the service of the daily newspapers be overlooked in this connection.

Perhaps no discoveries of the nineteenth century were more striking than the introduction of anaesthetics about 1848, and of antiseptics in 1865, which drastically reduced the death rate from serious operations while rendering possible numberless others never before attempted. During the same century there was an equally revolutionary change in scientific thought, typified by such mental innovations as the doctrine of the Conservation of Energy and the theory of Organic Evolution.

“ Now here, altogether, we have such a change in human life as to constitute a fresh phase in history. In a little more than a century this mechanical revolution has been brought about. In that time man has made a stride in the material conditions of his life vaster than he had done during the whole long interval between the palaeolithic stage and the age of cultivation, or between the days of Pepi in Egypt (ante 2,000 B.C.) and those of George III. A new gigantic frame-work for human affairs has come into existence. Clearly it demands great re-adjustments of our social, economic and political methods.”*

Unhappily, men's minds were not ready for anything of the sort, and even to-day there is very little to tell of any intelligently planned attempt to meet the new conditions Man is himself creating.

* H. G. Wells in “ *A Short History of the World.* ”

(6)

It is somewhat difficult to realise how short is the period during which Man has been possessed of this tremendous power. The life of each individual is so brief compared with the life of the race that no one living can remember a time when man had not the majority of these forces at his command. Yet it is only the very youngest who is not aware of the tremendous strides that have been made within his own lifetime and the rapidity with which new forces are being harnessed and new inventions and discoveries applied. It may perhaps serve to emphasise the bewildering suddenness with which this new power has been conferred if we take a few figures for comparison.

“ The present matter of the Universe cannot have existed for ever ; indeed we can probably assign an upper limit to its age of, say, some such round number as two hundred million million years. And, wherever we fix it, our next step back in time leaves us to contemplate a definite event, or series of events, or continuous process of creation of matter at some time not infinitely remote. In some way matter which had not previously existed, came, or was brought, into being.”*

“ The sun must have been born within the last eight million million years.”†

“ The earth’s age must be measured in thousands of millions of years. If we wish to fix our thoughts on a round number, probably two thousand million years is the best to select.”‡

Now assuming life to have existed on the earth in some form for three hundred million years, the age of man on earth to be three hundred thousand years and the period

* Sir James Jeans in “ *The Universe Around Us* ” at page 336.

† Ibid at page 181.

‡ Ibid at page 155.

of civilisation to be 6,000 years—all of which figures are suggested (although with appropriate reservations) by Sir James Jeans—we can construct a table somewhat as follows :—

Age of matter	... ..	200,000,000,000,000 years
Age of sun, one twenty-fifth part, or	... ..	8,000,000,000,000 years
Age of earth, one four thousandth part, or		2,000,000,000 years
Life on earth, one-seventh part, or	... ..	300,000,000 years
Man on earth, one-thousandth part, or	... ..	300,000 years
Civilisation, one-fiftieth part, or	... ..	6,000 years
Power Age, one-fortieth part, or	... ..	150 years

Astronomical figures as such have very little effect on the human mind. Just as the ear cannot hear tones too low or too high for its range, and the eye cannot pierce beyond the violet or red, so the addition of one nought or a succession of noughts to any of the larger of these figures makes no appreciable difference to the impression created on the mind. But if the figures are scaled down to something within the compass of our intelligences, the proportions become more significant. If, therefore, we assume that the sun came into being about the Year One, we should find on the same scale that our earth came into existence less than six months ago, while life on earth in some form or other commenced four weeks since. Mankind has inhabited the earth for a period of about forty minutes, while he has been reasonably civilised for approximately fifty seconds. Our power age has not yet existed for one and a quarter seconds—albeit very eventful ones.

(7)

During the last one hundred and fifty years or so mankind has acquired a tremendous physical and technical capacity to satisfy its material needs. How lamentably it has failed to utilise this power is shown only too plainly by the tremendous amount of poverty, whether actual or relative, existing—and accepted as inevitable—in the midst of this tremendous possibility of plenty.

It is curiously true that there are at the present day people who declare that no such thing as actual poverty exists. Possibly this is because, without a commonly accepted definition, there is room for difference of opinion as to what is and what is not actual poverty. Figures taken from a report of an actual survey of social conditions—such as that issued in June 1933 by the Sheffield Social Survey Committee—are therefore both interesting and important. The Committee undertook a survey to ascertain statistically the degree of poverty existing among the working class in that city. The work was undertaken purely as a scientific investigation, to provide accurate data as a basis of future efforts towards civic progress. Approaching the matter in this spirit, the Committee were confronted at the outset with the necessity of defining poverty, so as to exclude as far as possible any merely personal opinion upon the circumstances of the cases investigated. Accordingly, they decided to use a “minimum needs standard,” the physiological basis of which is that the diet of an adult male should contain (a) a certain number of calories and (b) a sufficient proportion of fat, protein and carbohydrates. The Committee adopted the standard dietary worked out by the New Survey of London Life and Labour, yielding 3,840 calories and 123 grammes of protein per diem—a slight excess of calories and a slight deficiency of protein compared with the requirements of

the physiologist. They then made enquiries at representative shops in Sheffield to ascertain the average cost of procuring such a dietary.

In this way the Committee arrived at a figure of 5/9d per week as the cost (in December, 1931) of providing the minimum diet necessary to sustain life in an adult male without deterioration through malnutrition. The physiological needs of a man, especially a man engaged in heavy work, were considered to be greater than those of a woman, of a child or of an old person. The food allowance accorded to other members of the family under the minimum needs standard were therefore proportionately smaller. Workers engaged in heavy manual tasks were estimated to require 10% extra. For clothing, a figure for men of 11½d per week, for women of 1s. 3½d per week, and for children of 9½d per week, was allowed. For cleansing materials and light an allowance of 3d per week for each adult and 2½d for each child was made. For fuel 2s. 1d per week per household was allowed, reduced to 1s. per week in the case of coal miners.

Taking the above figures, which can hardly said to err on the side of extravagance, it was found that in Sheffield the percentage of working-class families who either were below the poverty line or would have been but for public assistance or charitable relief was 15.4, while 3.5 per cent. represented marginal cases. The proportion of the total working-class population living in such circumstances was found to be even more serious, being 17.1 per cent., while 3.6 per cent. were marginal cases. The report concluded that

“over a sixth of the working-class population of Sheffield was living below the poverty line during the Winter of 1931-32 and that, if those whose incomes were on the margin of poverty are included, the

proportion was over one-fifth. It has also been shown that the proportion of working-class children living in homes below the poverty line was even greater. These figures have been obtained by comparing the minimum needs of each family with its actual income, earned or otherwise, *but excluding public assistance relief and charity*. They indicate that the resources (apart from relief and charity) available for the families in question, *if pooled and intelligently used*, were insufficient to cover their minimum requirements in respect of rent, food, clothing, heating, lighting and household utensils *without any allowance for recreation, conventional luxuries (e.g. newspapers or tobacco), holidays, sickness or savings*. The actual amount of privation suffered in working-class homes in Sheffield on account of poverty can, of course, only be conjectured. If the incomes of the different members of the family were not pooled, if the housewife was not a good manager, if money was spent on drink, tobacco, the cinema or football, or even if children were allowed a few pence of pocket-money, many families which are recorded as being above the poverty line in this enquiry must necessarily have lacked some of their minimum requirements unless they obtained public or charitable relief. It cannot be emphasised too much that the standard used in this enquiry is not regarded as being an adequate human-needs standard. The poverty it reveals is rock-bottom poverty, relieved only by public assistance receipts and a little charity. It needs little imagination to realise that, over and above the poverty recorded in this chapter, there exists an enormous amount of unassessable 'poverty,' the measure of which must vary with almost every individual observer."*

(8)

It is interesting and useful to compare the figures used by the Sheffield Social Survey Committee with those

* At pages 29 and 30.

reached by the Commission set up by the British Medical Association to ascertain "the minimum weekly expenditure which must be incurred by families of varying size if health and working capacity are to be maintained." The Commission, basing its report on prices in 1933, found that if food were bought as cheaply as possible, the diets which it considered adequate could be obtained at the weekly costs given in the second column of the following Table :—

Age.	Cost of Minimum Requirements.			Unemployment Assistance Board's Scale of Needs (excluding rent).	
	Food Only		Food, Light, Fuel and Cleaning.	Issued, 1936	
	B.M.A. Report.	Sheffield Report.			
	1933 prices	1931 prices	Sheffield Report		
Over 21 (m)	5/11	5/9	<i>Clothing :</i> Man 11½d.	Over 21 (m)	7/6
Over 21 (f)	4/11	4/7	Woman 1/3½ Child 9½d.	If Householder	12/-*
			<i>Light and Cleaning :</i> Adults 3d.	Over 21 (f)	6/9
			Children 2½d.	If Householder	11/3*
Over 16 (m)	5/11	5/9		Over 16 (m)	6/-
Over 16 (f)	4/11	4/7		Over 16 (f)	6/-
Over 14 (m)	5/11	4/10½	<i>Fuel :</i>	Over 14 (m)	4/6
Over 14 (f)	4/11	4/7	2/1 per family	Over 14 (f)	4/6
Child 12-14	5/4	2/10½	Manchester University Economic Research Section Report.	Child 11-13	3/4½
Child 10-12	4/9	„		Child 8-10	3/- 2/7½†
Child 8-10	4/2	„		Child 5-7	2/3†
Child 6-8	3/7	„	<i>Clothing :</i> Adult 1/- Child 10d.	Child under 5	
Child 3-6	3/5	1/11			
Child 2-3	3/1	„	<i>Light and Cleaning :</i> Each 3d.		
Child 1/2	2/8	„	<i>Fuel :</i> 3/4 per family		
				*For householder and wife, 18/-.	
				† In certain cases, 3/-.	

*For householder and wife, 18/-.
† In certain cases, 3/-.

The Sheffield Report based its figures on average Sheffield prices in 1931, since when prices have risen considerably. The Sheffield figures are also far less carefully graded than those of the B.M.A. Report, being taken as sufficiently accurate for the purpose in view. On the other hand, the B.M.A. Report with its carefully graduated scale, is admittedly based on minimum prices. Such figures cannot, therefore, present a fair estimate of cost in actual practice. No. housewife, however wise and fortunate, could expect to make all her purchases of eggs at 1d each, meat at 6d. per lb., or milk at 2½d per pint ; yet the B.M.A. Report assumes these and similar prices.

The final column shows the scale at which the normal needs of the unemployed household (other than rent) are assessed by the Unemployed Assistance Board. This scale came first into operation in November, 1936, and in comparing it with the B.M.A. and Sheffield Scales, the difference in cost of living must be borne in mind.

As certain costs are incurred to meet family rather than individual requirements, the table on the opposite page shows the assessment of the " needs " of four typical families for food, clothing, fuel, light and cleansing on the various scales under consideration.

The low scale adopted by the Sheffield Committee emphasises the startling nature of the conclusion already recorded. And even if all abject poverty as it reveals were relieved from public funds or private charity up to the U.A.B. standard—not the former, rejected standard, but the new " improved " scale — acute poverty would still exist, judged by a comparison with the minimum scale of the B.M.A. For it is important to note the relationship

“ COST OF MINIMUM NEEDS ”
OF
FOUR TYPICAL FAMILIES.

Composition of Family.		B.M.A. and Manchester University Scale. (combined)	Sheffield Scale	Unemployment Assistance Board Scale.
Man, Wife, Child aged 2.	Food : Clothing : Light and Cleaning : Fuel :	13/11	12/3	(Normal Scale with assumed rent deducted)
		2/10	3/0½	
		9d. 3/4	8½d. 2/1	
		20/10	18/1	21/-
Man, Wife, Child aged 2, Child aged 4.	Food : Clothing : Light and Cleaning : Fuel :	17/4	14/2	
		3/8	3/10	
		1/- 3/4	11d. 2/1	
		25/4	21/-	22/6
Man, Wife, Child aged 6, Child aged 9, Child aged 12.	Food : Clothing : Light and Cleaning : Fuel :	23/11	18/11½	
		4/6	4/7½	
		1/3 3/4	1/1½ 2/1	
		33/-	26/9½	27/-
Man, Wife, Child aged 3, Child aged 7, Child aged 11, Child aged 15 (m)	Food : Clothing : Light and Cleaning : Fuel :	28/6	22/10½	
		5/4	5/5	
		1/6 3/4	1/4 2/1	
		38/8	31/8½	30/9

between the B.M.A. scale—admittedly not an optimum diet, and based on unobtainably low prices—with the scale which has normally to be accepted by the families of those of our unemployed who have no other means of support.

(9)

Sir John Boyd Orr*, in the course of his enquiries into poverty and malnutrition, classifies the population of Great Britain as follows :—

Income per head per week.	No. of Persons.	Estimated Amount spent on food per head per week.	Remarks.
1. Up to 10/-	4½ millions	about 4/-	1. Includes over one-fifth of our child population. Deficient in every necessary constituent of a proper diet.
2. 10/- to 15/-	9 millions	about 6/-	2. Adequate only in protein and fat.
3. 15/- to 20/-	9 millions	about 8/-	3. Deficient in iron and calcium, and Vitamins A and C.
4. 20/- to 30/-	9 millions	about 10/-	4. Deficient in calcium by the Stiebling standard (U.S.A. Govt. Bureau of Home Economics).
5. 30/- to 45/-	9 millions	about 12/-	5. Probably deficient in calcium
6. Over 45/-	4½ millions	about 14/-	6. Adequate.

(Even Sir John Orr's standard dietary has been criticised as deficient in caloric value, and therefore is possibly not an optimum standard).

Thus, according to Sir John Orr, the average diet of half the population is quite inadequate for perfect health. Individual errors in diet may account for some part of this,

* In "*Food, Health and Income.*"

but the main defects arise from the under-consumption of the more expensive types of food by persons unable to afford them.

This is not the place to enter upon a treatise on malnutrition, or the merits of the theoretical standards of various experts, or the direct and indirect results of underfeeding on the well-being of individuals and of the nation as a whole. These matters are dealt with carefully and thoroughly in the periodical bulletins published by the Committee against Malnutrition* and elsewhere. The foregoing should sufficiently indicate the extent to which millions of the people of this—the most prosperous country on earth—are unable to afford sufficient food of a proper sort to maintain their health and physique.

But before we turn away from this record of starving bodies and wasting lives, let the following figures add their testimony. In 1934, according to an article by Philip H. Massey, in *The Architect's Journal*,† there were in Liverpool 20,515 people living at over three per room ; in Leeds there were 7,498 such ; in Manchester 8,864 ; in Birmingham 11,455 ; in Sheffield 7,679 ; and in London 150,130. In each of the London Boroughs of Islington and Finsbury, there were 23 families living eight or more persons in one room.

Perhaps things have improved a little since then—there is certainly room for improvement. But what a sorry commentary we have here on the use man has made of his knowledge, skill and power !

There can be no doubt, therefore, as to the present existence of a large measure of poverty which it is no exaggeration to describe as abject. But to an even greater

* Offices : No. 19c, Eagle Street, Holborn, W.C.1.

† Quoted by W. F. Lestrangle in "*Wasted Lives*," at p. 23.

extent we are to-day confronted with something which we may describe as "*relative poverty*." Many people who, by comparison with the absolutely poor—with those who are literally without the means to maintain life at a proper physical level—might be considered well off, are yet *relatively* poor judged by their reasonable needs and the plenty which could be so abundantly provided. Very few indeed are the people who could not do with a larger supply of this world's goods, or with goods of better quality or newer goods to replace old ones—goods which manufacturers and shop-keepers are clamouring for them to buy. The abject poverty of those whom we have described as the absolutely poor is more striking, and makes a more instant appeal to our sympathy ; yet the relief of this rock-bottom poverty would still leave the majority of people relatively poor in comparison with the possibility of plenty which is physically within their reach.

(10)

Side by side with this very real and unfulfilled desire for goods and services, there is an apparently ever increasing amount of involuntary unemployment, both of men and of machinery. The question of unemployment will receive detailed attention at a later stage : here it must suffice to point out that poverty and unemployment existing together present a monstrous contradiction and an affront to common-sense. If people had a reasonable sufficiency of everything, then unemployment (which in such circumstances would be re-named leisure) would be appropriate. Or, in a community engaged in a ceaseless war with nature, unable in spite of its best efforts to procure a standard of life as high as it desired, poverty co-existent with full employment would be understandable. But in no circumstances can poverty co-existent with involuntary leisure be reconciled with common-sense.

" There are two other great questions so much to the front just now that they tempt a final reference. I mean, of course, the paradox of poverty amidst plenty and the replacement of human labour by machinery. Applied science should take no blame for the former, but indeed claim credit unfairly lost. It is not within my capacity to say anything of value about the paradox and its cure ; but I confess that I see more present danger in the case of ' money versus man ' than danger present or future in that of ' machinery versus man.' With regard to the latter, it is surely right that those in touch with science should insist that the replacement of human labour will continue. Those who doubt this cannot realise the meaning of that positive acceleration in science, pure and applied, which now continues. No one can say what kind of equilibrium the distribution of leisure is fated to reach. In any case an optimistic view as to the probable effect of its increase may be justified."*

Now of the two great problems just referred to, poverty and unemployment, it is the latter which gives rise to the greatest heart-searching. It is felt that if only unemployment could be " cured," poverty would soon be abolished through the glut of goods produced by the re-employed. And so poverty is relieved by public assistance and various expedients outside the wage system, while attention is concentrated on the problem of unemployment—seen as the problem of " providing work." The question has not been resolutely faced, whether unemployment is merely a temporary phenomenon, to be treated as such, or a permanent feature of the modern economic system. Whether unemployment is an evil to be overcome, or a blessing to be encouraged, is a question scarcely even asked.

* Sir F. Gowland Hopkins in his Presidential Address to the British Association, August 1933.

Chapter II

MONEY AND MONEY POWER

Money—Bankers' Promises—The Expansion of Spending-Power—The Upper Limit—The Central Bank—The Bank of England—Money Policy—The Banker's Attitude.

(11)

Side by side with Man's tremendous and increasing command over natural resources, another type of power has developed which in fact controls the use of his material capacity to satisfy human requirements. Physical and technical power to-day decide whether or not a thing *can* be done, but it is money-power which decides whether or not it *shall* be done.

Our economic life at the present day has two aspects, distinct yet interdependent. The industrial, productive side of our system is concerned with the actual making of goods ; the financial, distributive side is concerned with the power to initiate production or to claim the product. And of the two sides of economic organisation it is obviously the financial which, in the absence of war or other national calamity, determines the extent to which the productive may operate. The presence of raw material in abundance, labour in plenty, and a real need for the product, does not result in the production of what is needed if "there is no money about". Money and money-power must therefore be our next consideration.

What, then, is money ? Money is of many kinds. A coin, a bank note and a bank-balance are typical varieties of money. The first two are currency—tangible tokens passing from hand to hand ; bank-credit, however, is

not currency but consists of promises on the part of some bank to pay currency, which promises are accepted as the equivalent of currency, and are dealt with and transferred by orders addressed to the bank and known as cheques.* The coin is issued by the Government ; the bank note and the greater part of "bank-credit" are issued or created by the banking system, composed of private institutions. The coin possesses a commodity-value, as it contains a fixed amount of gold, silver or bronze ; the bank note and the bank balance have no commodity-value, and their worth rests entirely upon the function they perform.

In spite of these differences, all kinds of money possess one attribute in common. When you or I accept money of whatever kind, we do so, not because such money possesses any inherent value of its own, but because we know from experience that it can be exchanged for the goods and services we require. Money as such has no existence apart from the function it performs, and to regard money as a commodity is proof of a radical misconception. The money system is a social mechanism designed to facilitate the orderly production and distribution of goods and services—a system of " tickets " enabling the holders to demand the kind of goods and services they desire out of the general supply. The function of money may be attached to a commodity having an intrinsic value, as in the case of a golden sovereign ; or it may be attached to a practically worthless piece of paper, as in the case of a bank note ; or it may be attached to such a nebulous conception as " bank-credit " which has no separate, tangible existence, but is merely represented by ledger-entries in the books of a bank.

* See Section 12.

There is, unfortunately, no generally accepted usage with regard to the terms "money" and "currency." Some writers, such as the Rt. Hon. Reginald McKenna, use the term "money" to imply spending-power in its widest sense, and the term "currency" in a restricted sense to imply tangible money tokens only. This is a convenient usage to adopt, and the terms will be so used throughout this book, although some writers use the terms the opposite way round. "*Currency*," then, is a term we shall use to denote metal coinage, bank notes, and paper money put into circulation by the State. In the term "*Money*" we shall include also another form of spending-power, namely bank-credit. The money of the community as a whole is the total amount of currency in active circulation outside the banks added to the total amount of the "bank-credit."

(12)

The total amount of currency in existence in this country at the present time (both in active circulation and in the vaults or tills of the banks) cannot be much more than £450,000,000, of which something under £10,000,000 is bronze or copper coinage, about £50,000,000 is silver, and Bank of England notes are anything from £350,000,000 to £400,000,000. But the total spending power of the nation is much greater. For instance, on December 31st, 1936, the total amount of current, deposit and other accounts (all representing forms of "bank-credit") with the ten London Clearing Banks* was about £2,251,279,000 (compared with £2,101,160,000 the previous year), representing money that was not actual currency, but rather the claims of people to be paid currency by their bankers. In the whole of England and Wales the total of such "deposits" was probably in the

* Excluding the District Bank which joined the London Clearing on 1st January, 1936.

region of £2,400,000,000. Outside the banks there was probably something over £300,000,000 in the pockets of the public making a total spending-power of approximately £2,700,000,000. Now how can this situation arise? If there is only £450,000,000 worth of currency in existence, how can the people hold or claim money in excess of this amount? The explanation is not difficult.

Suppose you or I have a quantity of currency—never mind in what precise form—it is probably not very convenient to carry it about with us, nor do we feel safe if we leave it lying in a drawer at home. Most likely we shall pay it into a bank. What then have we got in place of our currency? We have purchased from the bank *a promise on the part of the bank to pay to us on demand an amount of currency equivalent to that which we paid in*, with possibly some interest in addition. Because we know from experience that if and when we demand currency from the bank we shall receive it up to the extent of that promise, we regard the bank's promise as equivalent to actual currency. It operates, in the fullest sense, as money.

A promise by the bank to pay currency on demand can be transferred from one person to another by written orders known as "cheques." A cheque is merely a notification to a bank, made by the owner of a banker's promise that he wishes to transfer to somebody else the whole or part of his claim under the promise, and requiring the bank to make the necessary adjustment in its books.

So what happens in practice when I take £100 worth of my currency to the bank is that the bank receives my £100 and (assuming no contrary arrangement) gives a promise to pay, to me or to my nominee, £100 in currency on demand. I can if I like draw out that £100 in currency at once, or I can write a cheque and transfer the whole or

part of it to someone else. Except in the matter of convenience (in which I am a distinct gainer) I am in much the same position as I was before, and there are thousands of others like me. At the same time we must not suppose that the banker locks up my £100 in his till ready for me to draw out when I wish. On the contrary, he uses most of it either to lend to other people or to buy investments, or towards the purchase of a corner site, or in any other way which he considers wise and remunerative.

Bankers know from experience that they are not likely to be asked by all their customers simultaneously to honour their promises, and that in fact only about one-tenth of their commitments will ever be required at the same time. They feel, therefore, perfectly safe in lending out the greater part of the money paid in by customers, or utilising it in the purchase of securities or in payment for services rendered. In whatever way they distribute it, the money which finds its way back into general circulation outside the bank soon returns again into the bank creating fresh bank-liabilities to the persons who pay it in. And this can go on and on as long as the banking system as a whole does not let the total amount of its promises exceed the amount of available currency by more than the extent considered safe in view of the general habits of the public.

What has happened, of course, is that the various bank loans and investments reappear as deposits: that is to say that the liabilities of various people *to* the banks find their reflection in a growing mass of promises *by* the banks, created when members of the public return to the banks the money which the banks have previously invested or lent.

(13)

Let us look at the matter in an even simpler way. Assume a community in which the total amount of money, all of it in the form of currency, is £1,000, and that the members of the community place half of their money with one of their number, whom we shall call the banker. If we wish to, for the sake of simplicity, we may also assume that for the time being cheques are unknown and that the money is simply placed with the banker for safe keeping.

To begin with, then, the bankers' balance-sheet reads thus :—

<i>Liabilities.</i>		<i>Assets</i>	
Owing to customers ...	£500	Currency	...£500

Now there is constant drawing out and paying back of currency over the counter of the banker, as it is required to settle various transactions. The banker soon sees that however much drawing out and paying back there is, he always has about £400 in hand. Being a tidy man, and in order to save himself trouble, he ties up the money into five little bags containing £100 each. Then he puts four of the bags down into his cellar. He never needs them. He can do all the paying out that is required from his one little bag, because as soon as some money is drawn out, other money is paid back. Being a business man, however, he does not forget the fact that four bags of money are lying in his cellar, and if someone comes along and asks him for a loan, or if he sees some way in which he can utilise this money profitably, he will probably do so.

Let us assume, therefore, that the banker wishes to erect for himself some new premises. He will no doubt say to himself : " I have four bags of money lying idle. There can be no harm in utilising them, because I know from experience that the remaining bag of money is amply

sufficient to cover all likely calls upon me, in spite of the total amount of calls to which I am theoretically exposed." Accordingly he empties the four little bags and spends £400 on a corner site and the erection of a banking palace. When this has been done the banker's balance sheet is as follows :—

<i>Liabilities.</i>		<i>Assets.</i>	
Owing to customers ...	£500	Currency ...	£100
		Bank premises ...	£400

But a change has come over the monetary situation as a whole, for there is now an extra £400 circulating outside the bank, paid out in the erection of the new premises. This forms a definite addition to the spending power of the people, for there has been no corresponding diminution in the amount of bank promises to customers. When, as may soon happen, the £400 is again paid into the bank for safe custody, the bankers' balance sheet becomes as follows :—

<i>Liabilities.</i>		<i>Assets.</i>	
Owing to customers ...	£900	Currency ...	£500
		Bank premises ...	£400

Thus the action of the bank has increased the spending power of the community by £400.

The Banker again has five little bags of money, but he now finds that just occasionally he needs to dip into a second bag to satisfy his customers' demands for currency, although he never has any reason to disturb a third. When he surveys the position again he finds that he has always at least three bags of currency lying idle, and when a merchant asks for a loan of £300, offering a pledge to ensure due repayment, and also undertaking to pay interest for the use of the money, the banker would be more than human if he did not take the opportunity

THE MANUFACTURE OF MONEY

(Illustrating Sect. 13)

<i>The Banking System.</i>				Currency in general circulation	Total Spending Power.	
Liabilities to Customers		Assets.				
1.	£500	...	...	£500 in currency	£500	£1,000
2.	£500	...	...	£100 in currency £400 in premises	£900	£1,400
3.	£900	...	...	£500 in currency £400 in premises	£500	£1,400
4.	£900	...	...	£200 in currency £400 in premises £300 in loans	£800	£1,700
5.	£1,200	...	...	£500 in currency £400 in premises £300 in loans	£500	£1,700
6.	£1,200	...	...	£250 in currency £400 in premises £300 in loans £250 investments	£750	£1,950
7.	£1,450	...	...	£500 in currency £400 in premises £300 in loans £250 investments	£500	£1,950

and so on, until finally we get—

8.	£2,500 ...	£500 in currency £400 in premises £1,000 in loans £600 investments		£500	£3,000
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of making a little extra profit. After the loan, the position is as follows :—

<i>Liabilities.</i>	<i>Assets.</i>
Owing to customers ... £900	Currency £200
	Bank premises ... £400
	Amount owing to bank by borrower £300

For the time being, there is £300 of currency circulating outside the bank, in addition to the original £500. If and when this is redeposited in the bank by those to whom the merchant has paid it away, the banker's position becomes as follows :—

<i>Liabilities.</i>	<i>Assets.</i>
Owing to customers... £1,200	Currency £500
	Bank premises ... £400
	Loans and advances £300

This "stage army" proceeding—money leaving the bank as loans, advances, and investments of various kinds, and returning in due course—can go on over and over again until the banker finds that the amount of his promises to his various customers is, say, five times the amount of currency he has at hand. Then he probably considers that he has reached his limit. Were he to lend or invest any more, the ratio of his liabilities to his currency would be such as, from his experience, he knows might possibly lead to a greater demand for currency than he could meet. By this time his balance sheet would read something like this :—

<i>Liabilities.</i>	<i>Assets.</i>
Owing to customers £2,500	Currency £500
	Bank premises, loans advances and other investments ...£2,000

The spending power of the people has increased to threefold through the action of the banker who has, in a perfectly legitimate way, "created" the new £2,000.

The foregoing has been summarised by Mr. McKenna in a very few words :

" Every bank loan and every bank purchase of securities creates money, and by similar reasoning every repayment of a bank loan and every bank sale of securities destroys money."*

And again,

" Bank deposits are nothing more than debts owing by the banks to their customers,"†

In this connection, it is curious to observe how

" The Joint Stock Banks advertise the huge amount of deposits they owe as a sign of their stability. It is to some extent an index of the confidence the public has in them, but reflection will show that these deposits are really a huge liability which could not be met at any given moment."§

(14)

The simple illustration given in the preceding section showed the spending-power of the community rising from £1,000 to £3,000 by processes similar to those in daily operation throughout a modern banking system, except that we assumed that there were no cheques. If cheques had been in use, the amount of monetary expansion would probably have been greater than we have indicated. In our illustration we assumed that the banker kept in hand a supply of currency equal to at least 20% of his liabilities to customers. But with the growth of the cheque habit people do not to the same extent draw out currency to settle their transactions : they merely send "orders" to the banker to

* " *Post War Banking Policy*," at page 76.

† " *Midland Bank Review*," Feb./Mch., 1934.

§ C. P. Isaacs in " *The Menace of Money Power*," at page 116.

adjust their accounts in his ledgers. Accordingly the necessary proportion of cover to liabilities decreases, until a ratio of one to ten is nowadays accepted as ample. In such circumstances the spending-power of our community could be raised to, say £5,500 without any increase in the volume of currency.

When, however, the conventional ratio of cover to liabilities has been reached, there can be no further expansion within "safe" limits unless there is an increase in the amount of currency or a change in the banking habits of the people. If the amount of currency in the possession of the banks is by any means increased, the amount of bank-liabilities can be allowed to increase proportionately. Or if the habits of the people change, so that they make an ever increasing proportion of their transactions by cheque, calling for correspondingly less currency in the conduct of business, the banks may find it unnecessary to maintain a cash reserve of 10% against their liabilities, and a 9% reserve may become the accepted practice. In such a case, even without an expansion of cash reserves, the banks might create new credits until the total volume of money was not £5,500 but over £6,000. And, in theory, if the use of currency went out absolutely, and all transactions were carried through by cheque, there is no necessary upper limit to the amount of bankers' promises to pay currency and no need for them to hold any currency at all. Practically, however, there is a limit. People's habits change only gradually, and the banks, playing for safety, are apt to change their accustomed practices even more slowly. There is, accordingly, an upper limit to the power of the banks to expand their liabilities and so increase the public spending-power. This limit is self-imposed at a conventional multiple of their cash reserves.

(15)

We have written so far as if the "cover" held by a bank against its liabilities to pay currency to its customers consisted, as at first sight seems but natural, of actual currency in its possession. But in fact the cover, or cash reserve, includes much more. "Bank-cash" includes, not only currency issued by the State but also bank notes issued by the central banking institution—that institution's own written "promises to pay." And, in addition, the bank-cash of the ordinary commercial bank includes its balances with the central bank.

The term "commercial bank" was used in the last paragraph to distinguish those banks with which the ordinary person or firm transacts banking business. In England and Wales there are just over a dozen of such commercial banks at the present day, eleven of which are affiliated with the London Clearing House. This Clearing House is an institution having branches in some of the leading provincial cities, by means of which the various banks are enabled to operate as one large banking system, settling their mutual credits and debits daily.

In contradistinction to the "commercial bank" is the central bank. A commercial bank does not keep all its currency in its immediate possession, but deposits a proportion with the central bank, which is in effect a bank for bankers, the Government and the larger armament firms. And just as you or I, when dealing with a commercial bank, draw no hard and fast distinction between the currency we actually possess and the promises of our banker to pay currency to us on demand, so the commercial bank lumps together as bank-cash both the currency it actually holds and also its deposits with the central bank.

This gives to the central bank—in this country the Bank of England—a special power. Just as by making

and cancelling loans and investments the commercial banks can expand or contract the aggregate amount of their customers' deposits, so the central bank by buying and selling securities and in other ways can vary the amount of available bank-cash. The Bank of England, let us suppose, buys £1,000 worth of securities on the stock market. It pays for them by a draft on itself. The recipient has parted with his securities but possesses the Bank's "promise to pay" £1,000. The public spending-power has therefore increased by that amount. This "promise" he pays into the Bank—the Midland Bank, let us suppose. The Midland Bank has now a new supply of "bank-cash," which it probably passes straight through to the Bank of England. In sum, the Bank of England has increased its assets by the securities purchased, and its liabilities by its promises to pay £1,000 to the Midland Bank. The Midland Bank has increased its assets by the promise of the Bank of England to pay to it £1,000, and its liabilities by the £1,000 it owes to the seller of the securities. But the bank-cash held by the Midland Bank has increased by £1,000, so that it can, by methods already discussed, safely expand its liabilities by a further £9,000 beyond its new £1,000 liability to the seller. And this it will doubtless do at the earliest opportunity, for although it is essential for a commercial bank to retain a prudent ratio between cash and liabilities, it is in its interest as a business concern to have as little cash as possible lying idle, for cash in hand earns no profit.

This power of the central bank to regulate the amount of the bank-cash of the commercial banks gives to it an almost complete control over the volume of bank deposits. Chiefly by the sale and purchase of securities—"open market operations"—and variations in the bank

rate, our central bank, the Bank of England, can determine within comparatively narrow limits the amount of the nation's money. This power it does not hesitate to exercise.

(16)

The foundation of the Bank of England happened on this wise.

"The Government of William III was in sore straits for money, as that of Charles II had been before it. It was not strong enough to raise the money by taxation. A company of rich men under the leadership of one William Paterson offered to lend William £1,200,000 at 8% on condition that 'the Governor and Company of the Bank of England,' as they called themselves, should have the right to issue notes to the full extent of its capital. That is to say, the Bank got the right to collect £1,200,000 in gold and silver, and turn it into £2,400,000, lending £1,200,000—the gold and silver—to the Government and using the other £1,200,000—the bank-notes—themselves. Paterson was quite frank about it that this privilege which had been given to the Bank was a privilege to make up money. '*If the proprietors of the Bank,*' he wrote, '*can circulate their own foundation of twelve hundred thousand pounds without having more than two or three hundred thousand pounds lying dead at one time with another, this Bank will be in effect as nine hundred thousand pounds or a million of fresh money brought into the nation.*' In practice they did not keep a cash reserve of nearly two or three hundred thousand pounds. By 1696 we find them circulating £1,750,000 worth of notes against a cash reserve of £36,000."*

This power of creating money is one which the Bank of England retains to the present day. Up to the statutory limits imposed by the Bank Notes and Currency Act of 1928, the Bank of England may issue its own notes.

* Christopher Hollis in "*The Breakdown of Money*," at pages 49 and 50.

It is true that there must be security behind the note issue, but the notes themselves can be utilised to purchase gold or investments. From the point of view of direct profit this is not quite so outrageous as would at first sight appear, for although these investments generally bear interest, while the notes do not, the Act referred to provides that

“ the Bank shall, at such time 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.”*

From the point of view of power, however, it is a matter of the first concern.

Is not the Bank of England itself subject to any limitations? It would seem reasonable to conclude that just as the commercial banks are under liability to redeem their promises in currency, so the Bank of England is under a similar liability. The amount of currency in existence will therefore have a bearing on the upper limit of bank-cash. What, then, determines the amount of currency in circulation? As we have seen, by far the greater part of our currency consists of bank-notes, and the position with regard to the number of these is regulated by the Currency and Bank Notes Act, 1928, of which the relevant Sections are Sections 2 and 7, which run as follows :—

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 Currency and Bank Notes Act, 1928* Section 6 (1).

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.

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. . .

Subject to the power of the Bank of England, with the permission of the Treasury, to increase the "fiduciary issue," the upper limit to the amount of currency in this country is regulated by the amount of gold in the issue department of the Bank of England, either in the form of coin or bullion. Bullion includes any coin which is not current and legal tender in the United Kingdom.

(17)

The Bank of England is thus in a position to regulate the volume of money within Great Britain. There is no need, in discussing the Bank's monetary policy, to believe that it uses its powers in any way contrary to its conception of the common good, although naturally the common good may, in its view, be merely another term for the stability of the present financial system and acceptance of the assumptions on which it is based. The action of the Bank must be judged solely by the results.

"Nothing in monetary practice is more certain than that contraction of the volume of money, or even failure to secure an adequate increase, tends both directly and indirectly to put a brake on business of every kind, and to produce the very troubles—unemployment, unremunerative commodity prices, unbalanced budgets and general depression—which have been apparent in almost every country of the world in the past four years. . . . It follows, then, that the policy of the Bank of England is of the utmost concern to everyone, for no one escapes the effect of general depression and not one of us fails to benefit from sustained prosperity."*

But although it is always possible by an unsuitable monetary policy to forfeit that prosperity which is physically within our reach, it is not always possible, within the present monetary system, to ensure a continuance of even comparative prosperity. As we shall shortly see, our present economic system is mathematically an obstructed one, and it is only the degree of obstruction which can be intensified or mitigated by monetary policy.

So long as Great Britain was on the gold standard† the Bank of England was restricted in its choice of policy by adherence to international gold requirements. Even

* Rt. Hon. Reginald McKenna, Midland Bank Shareholders Meeting, 26th January, 1934.

† As to which, see Chapter VII.

so, it had a considerable field for the exercise of its independent judgement. But with the passing of the Gold Standard (Amendment) Act, 1931—which in effect suspended the gold standard so far as concerns this country—the powers of our central bank over the volume of our money became so wide as to be unrestricted for all practical purposes.

Of course, there still remains the inherent authority of Parliament, able to over-ride or curtail the powers of the Bank or dictate its policy if ever dispute arose. But this is a democratic country, in which the will of the people as expressed at the polls is, theoretically, the authority for Parliamentary action. And one result of the continued extension of the franchise has been to make it less easy, even if the desire is present, to consult the people on matters of real importance. During the general election of 1931, for instance, when the whole issue was said to hinge on the monetary situation, it was noticeable that candidates of all parties endeavoured to avoid references to the gold standard, and its influence on national prosperity. They realised that it was too involved a question for discussion from political platforms. They were also probably wise in avoiding discussion, whether from a platform or otherwise, of a topic about which they themselves were for the most part profoundly ignorant. In other words, as determining the will of the people with regard to the monetary policy of this country, the election was a farce. The determination of financial policy did not lie with the electorate, who could not understand the issues involved, nor with the Members of Parliament, who were incapable of putting the issues before their constituents. It lay with the central financial authority, the Bank of England. The only choice (if any) for the electors was that of who should carry out the Bank's policy.

While the expansion of the electorate has rendered it less and less able to express an intelligent opinion on matters of the supremest importance, the concentration of finance has placed it in a position to induce or compel the Government of the day to adopt the bankers' policy as its own—and to take the blame for the result. On the other hand, if for any reason the results are propitious, the Government of course take the credit, although to some it may seem curious that credit should be given for the relatively small progress made, rather than blame accorded for the failure to achieve the tremendous progress which Science has rendered immediately possible.

(18)

How does the Banker, armed with so much power, regard his own position in relation to the rest of the community? A speech* by Mr. R. H. Brand (managing director of Lazard Frères) at a League of Nations Conference gives an insight into the attitude of the bankers to their own organisation.

“ The economic and financial world structure is not so much a machine as an organism. It is not something consciously built up which can be consciously repaired. It is not a deliberate result of human reason and foresight. It is an organism created subsonsciously, with price and interest, as it seems to me, the main agencies, and built up more or less as bees build up their honeycomb. In fact it is worked by us not much more consciously than we manage our own digestions. The monetary and credit organisation of the world is, so to speak, the frame within which the human bees make their honey and their honeycombs. If that frame is damaged or distorted by war and other troubles, then the work of the bees is thrown all awry and they cannot get it straight

* Reported in “ *The Times* ” of 3rd March, 1932.

unless the frame itself is set straight again ; in our case unless the world's monetary and credit conditions once more get stable."

Evidently the conditions within which we live and move and have our being are to "get stable"—to right themselves in some mysterious way. It matters not that the frame may not be self-righting and may be totally inadequate and perpetually vulnerable. A conscious examination of fundamental principles or the deliberate creation of a more adequate structure is not within the banker's contemplation.

If the position were more generally realised,

"the public would hardly acquiesce in the Central Banks proceeding, in their position of complacent detachment, to generate depression, unemployment, bankruptcy, budget deficits and defaults, with the resulting political and social convulsion, while Government after Government is broken because it can neither stem the flood of ruin nor even provide tolerable palliatives to alleviate the consequences."*

* R. G. Hawtry (Assistant Secretary of the Treasury) in "*The Art of Central Banking*" at page 302.

Chapter III

UNRECOVERABLE COSTS

Modern Business Undertakings—Inability to Buy—The “A + B” Theorem—Division of Spending Power—Unrecoverable Costs—Investment—Industrial Stagnation—The National Purse.

(19)

It is, as we have seen, no lack of physical or technical ability to supply goods and services which prevents people nowadays from enjoying a far higher standard of life ; nor is there any lack of desire for such goods and services. The principal obstacle to the fulfilment of that desire seems to be inability on the part of people to pay for what they would gladly have, and for what industry would be only too pleased to supply.

The growth of the use of machine-power has led to a change in the nature of business organisation. The continually increasing cost of machinery, the high expense of industrial research and administration, and the need for special technical and administrative ability in modern large-scale production—necessitating the subdivision of its organisation into numerous departments—have given rise to business undertakings of a new kind. No longer is the manufacture of goods or the supply of essential services (other than the purely professional) carried on in the main by individuals or small partnerships of persons working on money which is either their own or for which they have assumed personal responsibility. More and more are business undertakings organised as entities entirely separate from those interested in them. Most of these are companies with limited liability, financed and ostensibly

owned by "shareholders" who have, however, no control over the technical administration of the company, no liability for its commitments and comparatively little control over its policy. The money they have subscribed to the company they regard as "investment," and their interest in the company is purely a financial one. An unsuccessful company is one which pays no dividend, or only a low one. A successful company is one which periodically distributes to its shareholders an amount which they consider an adequate return on the money invested by them.

Business undertakings, whether limited liability companies or not, are at the present day primarily concerned with the collection of money either from the general public or from other undertakings. Generally speaking, a business provides goods and services with one end in view, namely to sell them and to recover in their price a greater quantity of money than was paid away in the process of their production. If any business consistently fails to do this, however real may be the need for the goods it supplies, it has sooner or later to cease operations. In short, businesses to-day exist for a definite purpose. They are run with the object of collecting money through prices, and the production by them of goods and services is a means to that end, and not an end in itself. The financial position at the end of the year is the acid test of business success. It follows, then, that every payment made by a business undertaking as such (if in the form of a wage or salary) must sooner or later appear in prices, or (if in the form of a dividend to shareholders) must have already so appeared.

(20)

Broadly speaking, the money available to buy goods and services only reaches the general public through the

wages and salaries distributed in the course of industrial processes and the dividends paid out of "profits." The money may reach the would-be customer as a direct industrial payment (*e.g.* in the case of workmen or investors), or indirectly (*e.g.* in the case of shopkeepers or doctors, who divert into their own pockets money previously distributed by industry to workmen and investors). In some cases the money may reach the individual by an even more roundabout route. The spending-power of the army and navy, the old-age pensioner and the civil servant is obtained through taxation, from the pockets of other members of the public. In short, it is only through the wages, salaries and dividends distributed by manufacturers in the course or as the result of industrial processes that people obtain the money they require to claim goods and services, while most people depend directly upon employment in industry for the wherewithal to obtain their daily bread.

But are we not here entering a vicious circle? Lack of orders is admittedly the reason why normally a great deal of plant and machinery lies idle, and why even to-day thousands of willing workers cannot find employment. An effective order implies not only a desire for goods on the part of the person giving such order, but also confidence on the part of the person receiving the order that such goods will be paid for. The desire for a higher standard of living is real and general; the power to pay for more goods is apparently deficient. Normally, therefore, we find business undertakings ready and able to produce goods if they can secure orders, and we find people who require goods anxiously awaiting a revival of industry in order that there may be distributed to them the wages and salaries which will enable them to order what they want.

There seems to be a lack of money on the buying side of the market. How has this position arisen ?

The theory which has tied our hands for the last hundred years and which still underlies all orthodox and most unorthodox economic writings—the theory that there can be no such thing as production in excess of the means of payment—evidently needs re-examination. Now, if I am short of money, it must be because either (1) I never had enough money, or (2) some of the money which I have had has been lost or applied to some other use. Putting this into more general terms, the explanation of a general deficiency of purchasing-power can either be sought in an initial insufficiency, or in the diversion of money from consumption to some other purpose. We must accordingly approach the matter from two directions : we must try to ascertain whether or not the amount of money distributed to individuals by industry in the processes of production is equal to the simultaneous creation of new costs which must sooner or later appear in the price of goods that individuals wish to buy : and we must also satisfy ourselves whether (irrespective of the adequacy or otherwise of the amount distributed) all the money which might have been available to buy goods is still available, or whether some of it has been utilised to finance new capital production instead. It may be, of course, that the shortage of purchasing-power apparent in every industrial community arises both from the *insufficiency* of the amount distributed and also from the *diversion* of some of it from spending on consumption to investment in new production.

(21)

The existence of an inherent deficiency in the amount of money distributed to individuals in the course of industrial production is the explanation insisted upon by Major

C. H. Douglas, who contends that in any given unit of time the flow of purchasing-power to the various individuals connected with industry is never sufficient to buy the total goods produced within that unit of time at the prices which manufacturers are, by the present system, compelled to charge. As Douglas and the majority of his followers attach extreme importance not merely to the fact of a definite money-shortage, but also to this particular method of accounting for it, it may be as well to quote Douglas' own words in support of his proposition. His argument runs thus :—

“ A factory or other productive organisation has, besides its economic function as a producer of goods, a purely financial aspect. It may be regarded on the one hand as a device for the distribution of purchasing-power to individuals through the media of wages, salaries and dividends, and on the other hand as a manufactory of prices—financial values. From this standpoint its payments may be divided into two groups :

“ *Group A.* All payments made to individuals (Wages, salaries and dividends).

“ *Group B.* All payments made to other organisations. (Raw materials, bank charges, and other external costs).

“ Now the rate of flow of purchasing-power to individuals is represented by A , but since all payments go into prices, the rate of flow of prices cannot be less than $A + B$. The produce of any factory may be considered as something which the public ought to be able to buy, although in many cases it is an intermediate product and of no use to individuals but only to a subsequent manufacturer ; but 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 . ”*

* C. H. Douglas, in “ *Credit Power and Democracy* ” (2nd edition) at pp. 21 and 22.

The exact implication of this obviously true statement has occupied a preponderating space in Social Credit literature, and has aroused considerable controversy. It has been expanded and explained in a great number and variety of ways, and is often accepted by the disciples of Major Douglas as an adequate and incontrovertible proof of a necessary, inherent and increasing disparity between the amount of costs which must be recovered by industry if industry is to survive and the amount of money available to liquidate such costs. Unfortunately, many students and economists are unable, with the best will in the world, to accept the " $A + B$ " theorem as proof of anything of the sort.

What the theorem *does* undoubtedly prove is that *if* and *when* a disparity has arisen, there is no way within the rules of the existing economic system of overcoming such disparity.*

Is there then no growing disparity between industrial costs and the money available for their liquidation? An explanation of such a disparity has been given by Mr. E. F. M. Durbin in his article on "*Money and Prices*" in Cole's symposium "*What Everybody Wants to know about Money*."†

"The explanation lies in the general historical fact that the accumulation of capital tends in the long run to increase the complexity of production and increase the number of stages, the proportion of resources, and the amount of time which are involved in the production of intermediate products. More and more of the ultimate productive resources are engaged in producing crude steel, and engines and spun yarn and flour, and less and less are used in the direct production of food and clothes. It is only necessary to compare the

* See also Appendix A.

† At pp. 333 and 334.

present organisation of production in a staple textile industry, such as wool, with the simpler methods of a century ago to realise that this tendency exists. If it exists, it necessarily follows that a larger proportion of a constant supply of money will be held by the producers of these intermediate products, and a smaller and smaller proportion by the consumers. As the structure of production grows more complex these new stages and the new firms handling intermediate products will require a larger and larger fraction of the total money supply. Consumers will therefore receive and hold a smaller and smaller *fraction* of whatever money exists ; and it naturally follows that, if the *total* amount of money is constant, the consumers will receive a smaller and smaller absolute sum. More and more of the existing money is caught up and held within the general *productive* system."

But even this explanation is not completely satisfactory, as it does not prove any necessary discrepancy between the total amount of money received by consumers (although it may be a decreasing amount) and the total quantity of costs which that money is called upon to liquidate, *i.e.*, the total amount of prices. Are there, then, any actual figures tending to show the existence of such a discrepancy ? It would seem that there are.

"According to the National Bureau of Economic Research, in 1918 American Industry paid out \$45,548,000,000 in the form of wages, salaries, dividends, bonuses, pensions, compensation for injuries, etc. That is to say, this was the amount available for the purchase of consumers' goods that year. But that year American Industry produced consumers' goods to the value of \$60,366,000,000."*

This certainly seems evidence of an insufficient flow of money to consumers in relation to prices, and no doubt many people will accept it as satisfactory proof. As a

* Maurice Colbourne in "*Economic Nationalism*" at p. 155.

matter of fact, even this disparity can be explained in another way which we shall consider in Section 24.

(22)

It is the writer's considered opinion that an existing deficiency of purchasing-power can be sufficiently and satisfactorily explained as the result of the *diversion* of consumers' money from expenditure on consumers' goods to investment, either direct or indirect.

Even at the risk of irritating those readers to whom the over-familiar conception of a small self-contained community is peculiarly provoking, let us assume the existence of such a community, consisting of three individuals whom we shall call A, B and C. Suppose A, B and C, realising the value of co-operation, agree to join together to produce what they require, the arrangement being that payment for a day's work shall be one pebble (of which there are eighteen and no more available) and that pebbles shall also be accepted as good claims to goods and services. At the start, the whole of the pebbles are handed over to the joint undertaking, which for brevity we shall call "the Company," so that the Company begins with eighteen pebbles while A, B and C, as individuals, have no pebbles. The Company now employs A, B and C and pays to each of them one pebble a day. At the end of six days, therefore, each of them has received six pebbles, so that, as no question of making a profit arises, the price of the goods made during that week is eighteen pebbles. By Saturday, which is market day and a holiday, A, B and C between them possess eighteen pebbles, and if they then spend their pebbles on the goods they have made it is clear that no disparity between goods for sale and pebbles for purchase arises. But suppose now that A, B and C find that owing

to their increased output when working together they do not really need the product of six days' labour in each week to supply them with their primitive requirements. They do not, let us further assume, cease from their work, but choose instead to "save up for a rainy day." One Saturday they each draw from the Company's store only five pebbles' worth of goods, surrendering fifteen pebbles between them. By the following Thursday evening there is a hitch. The Company has no more pebbles in hand with which to pay Friday's wages. So A, B and C each hand back a pebble to the Company on loan, receiving an acknowledgment in exchange. The pebbles come back to A, B and C as wages next day.

The following Saturday morning, therefore, sees the Company with a stock of goods on hand representing the result of 21 days work, and in respect of which 21 pebbles have been paid out in wages, while its potential customers have only 18 pebbles among them. And if A, B and C repeat the same process next week, we shall find that next week there is an increase of three pebbles in the disparity between the "unrecovered costs" of the Company and the spending-power in the hands of its customers.

It is no refutation of the argument to point out that the pebbles invested by A, B and C are spent by the Company in further production. When the Company pays out these pebbles in wages it has, as a matter of industrial accountancy, to add the same number of pebbles to the costs it must sooner or later recover in prices, so that after the second week the goods for sale are priced at 24 pebbles, while A, B and C have still only 18 pebbles among them. Week by week we find that the total of unrecovered "costs" increase without any increase in the number of pebbles possessed by A, B and C, giving rise

THE ACCUMULATION
OF
UNRECOVERED COSTS

(To illustrate Section 22).

Week	Date. Day	Com- pany's Money	Individual Spending-power				Total Unre- covered Costs	Disparity
			A	B	C	Total		
1.	Sunday a.m.	18	—	—	—	—	—	—
	Saturday a.m.	—	6	6	6	18	18	—
	p.m.	15	1	1	1	3	3	—
2.	Thursday p.m.	— 3	6 5	6 5	6 5	18 15	18 18	— 3 Investment
	Saturday a.m.	—	6	6	6	18	21	3
	p.m.	15	1	1	1	3	6	3
3.	Thursday p.m.	— 3	6 4	6 5	6 6	18 15	21 21	3 6 Investment
	Saturday a.m.	—	5	6	7	18	24	6
	p.m.	15	—	1	2	3	9	6
4.	Thursday p.m.	— 3	5 3	6 5	7 7	18 15	24 24	6 9 Investment
	Saturday a.m.	—	4	6	8	18	27	9
	p.m.	15	—	1	2	3	12	9
		&c.	&c.	&c.	&c.	&c.	&c.	&c.

Investment, A, 5 units.

B, 3 units.

C, 1 unit.

to a growing disparity between "prices" and "purses" equal in amount to the number of pebbles diverted from the service of consumption to that of further production.

The diagram on page 67 shows the steadily growing disparity between spending-power and costs over a number of weeks. It is not necessary to suppose that A, B and C invest equally, or that they spend equally. We have accordingly assumed that during the third week A invests two pebbles, B invests one and C none, but that they all spend 5 pebbles. During the fourth week, we have supposed that the three invest the same amounts as during the third week, but that on Saturday A only spends 4 pebbles (all he has to spend), B spends 5 as usual, but C—evidently the improvident one of the party—spends 6 pebbles.

By this time there is a discrepancy of nine pebbles between costs and spending-power. A has, of course, "securities" of the nominal value of 5 pebbles, B has "securities" valued at 3 pebbles, and C has invested one pebble. But neither A, B nor C can spend their securities. A can sell part of his to C, if C will buy, and can then spend the proceeds. But this will merely reduce C's power to spend by a similar amount. It would seem, then, that a permanent discrepancy has arisen equal to the total amount invested by A, B and C.

It is fully appreciated that the circumstances outlined in the foregoing illustrative argument are primitive, and do not correspond very closely to the situation to-day. The illustration does, however, show that even in a primitive community a shortage of money would certainly occur if a system in any way corresponding to the present financial system was adopted. The only question that arises in this connection is whether or not any mitigating

factors enter into the picture with the added complexity of modern production. This is a question which we shall have to discuss a little later.

(23)

In Section 25 of "*This Age of Plenty*" (Fifth Edition) the writer has dealt with the matter in a slightly more general way, as follows :—

" 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 interfactory payments, becoming merely interdepartmental, cancel out financially, we see that the average number of weeks taken for the recovery through prices of a payment made to an individual consumer in the course of production is approximately 1,000,000 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, that there are in existence more unrecovered costs—physically represented by unsold goods, both ultimate and intermediate—and, secondly, that manufacturers have to wait longer before they can recover in prices payments made by them in the course of production."

In Chapter III of "*The Community's Credit*" there has been given a diagrammatic illustration of the position which may be of help in following the foregoing argument and to which any reader sufficiently interested is referred. Reference must also be made to Chapter III of Mr. P. W. Martin's book, "*The Flaw in the Price System*," which deals with this particular aspect of the problem very lucidly and in more detailed manner than there is space for here.

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In the last two Sections no reference was made to profits. This omission was deliberate, in order to show that even if the costs sought to be recovered by industry are no more than sufficient to cover wages (including salaries), an essential disparity between unrecovered costs and spending-power arises whenever the public is called upon to finance new production. Profits may possibly be an aggravation of an inherently unsound position—there is no general agreement on this point. But it is quite certain that even if profits are excluded from our calculations, the discrepancy increases with each diversion of wages and salaries from their prime function of financing consumption.

But although direct investment provides the most obvious way in which money available for consumption is diverted towards the financing of new production, the retention of profits and their utilisation in extending

capital works produces a similar result. To prevent an increase in the mass of unrecovered costs, not only must no part of the wages and salaries distributed in the course of production be diverted into investment, but also the whole of the profits must be paid away as dividends. The position is summed up by Mr. Martin in the following words :—

“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.”*

In his valuable treatise on “*National Income and Outlay*” Mr. Colin Clark states that it is well known that the principal source of savings under modern conditions is the undistributed profits of companies and firms, including private companies. On page 187 he gives a Table prepared from figures published by *The Economist* showing the percentages of profits undistributed during the years 1924 to 1935, as follows :—1924—22.3% ; 1925—21.1% ; 1926—17.9% ; 1927—20.6% ; 1928—20.3% ; 1929—18.6% ; 1930—15.8% ; 1931—5.5% ; 1932—8.8% ; 1933—17.2% ; 1934—20.9% ; and 1935—24.0%. Thus, over these twelve years, industry refrained from distributing approximately 18.5% of the profits earned.

And here, referring to the figures quoted in Section 21, showing an actually calculated discrepancy, we are led to suggest that during the year in question—a time of great industrial expansion and large profits—there was a very considerable amount of “indirect” re-investment of

* “*The Flaw in the Price System*,” at pages 34 and 35.

profits in new production. Goods were priced at a figure greatly in excess of their production costs, and the profits made were not distributed in dividends but were retained in order to finance new production. Such money, when subsequently distributed as wages and salaries, would at the same time add a similar amount to "costs."

We thus see that in any progressive industrial community there is a steady lengthening of the time taken to recover through prices the costs incurred during production. If we assume a tank of unlimited capacity into which water runs at the rate of 105 gallons per hour and out of which it flows at the rate of 100 gallons per hour, it can never be said of any specific drop of water that it will not pass through the tank, given long enough time. But it can be said with certainty that the average length of time required for a drop of water to pass through the tank is steadily increasing. So it is with the creation and recovery of costs. It is here submitted that this lengthening of time between the distribution of costs and their recovery through prices is the principal cause of industrial stagnation.

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To illustrate in more detail the effect of this piling up of unrecovered costs, let us consider further the community in which the total of such costs is at a given date £1,000,000, physically represented by plant and machinery. Let us also assume an average plant-life of ten years, so that each year 10% of the book-value of machinery, etc., has to be accounted for, and either placed to a depreciation account or re-expanded in maintenance and renewals. (It will simplify our illustration, without detriment to the generality of the argument, to assume that all plant charges recovered from the public in prices

CAPITAL EXPANSION AND INDUSTRIAL STAGNATION

(To illustrate Section 25)

		YEAR.			
<i>Plant Value.</i>		1. £1,000,000	2. £1,026,000	3. £1,052,000	4. £1,078,000
Wages paid in respect of	Repairs & renewals to existing Plant	100,000	102,600	105,200	107,800
	New Capital Construction	26,000	26,000	26,000	26,000
	Other Pro- duction	426,000	417,400	414,800	412,200
		£546,000	£546,000	£546,000	£546,000
New Investments		26,000	26,000	26,000	26,000
Costs recovered through Prices		£520,000	£520,000	£520,000	£520,000
Proportion of prices attributable to main- tenance charges		19.2%	19.7%	20.2%	20.7%
Average period of re- covery of costs through prices— approximately		weeks 100	weeks 102.6	weeks 105.2	weeks 107.8

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are immediately re-expended in maintenance). The average wage-bill is £10,500 per week or £546,000 per annum, of which the public spend £520,000 on goods and invest the balance of £26,000 on capital extension. The £26,000 invested during one year is spent during the next on the production of new plant and machinery, forming part of that year's wage-bill of £546,000. For simplicity we will also assume that goods are sold at production-cost, and that there is no variation in the total amount of money or the velocity of its circulation.

The first year will see £546,000 paid out in wages, of which £26,000 will represent money previously invested for capital extensions, and £100,000 will be spent on the maintenance of existing plant. Industry will recover £520,000 through the shops, and £26,000 will be handed back through investment. This latter sum is reserved for expenditure during the second year in wages on the construction of new machinery. The second year starts with plant valued at £1,026,000, and, of the wages distributed during that year, £102,600 will be in respect of repairs and renewals. The situation over a number of years is represented by the Table on page 73.

It would, of course, be absurd to push this illustration to its logical conclusion, or it could be shown that after a time industry would be unable to recover in prices the cost of its plant and machinery during the period of their economic life, without any other charge at all. Before that time there would have arrived a period of complete industrial stagnation, the tendency towards which is illustrated in the table.

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In connection with what has gone before, it is a matter of some importance to ascertain within fairly wide limits, not so much the exact amount invested in new capital

production, as the approximate proportion which this bears to the total national income available for spending on goods and services. On page 88 of "*National Income and Outlay*" Mr. Colin Clark gives his estimate of the National Income of Great Britain and Northern Ireland during a number of years. On page 165 of the same book he gives quarterly figures showing the consumption of goods and services. On page 185 he estimates the value of the capital works carried out during certain years, and also the net increase in capital equipment after allowing for replacements. Then, on page 187 we find Mr. Clark's estimated total of undistributed profits. From these data we are able to compile the following Table :—

Year.	National Income, Net	Consumption of Com- modities and Services	Increase in Plant and Machinery.	Undis- tributed Profits	Capital Increase as percentage of Income.
In millions of £s.					
1930	4,318	4,077	235	103	5.4%
1931	3,889	3,959	178	28	4.6%
1932	3,844	3,877	141	47	3.7%
1933	3,962	3,879	168	110	4.25%
1934	4,238	4,018	228	156	5.4%
1935	4,530	4,276	268	228	5.9%
1930/5	24,781	24,086	1,218	672	4.9%

Examining the above Table we see, in the first place, how closely the consumption of ultimate goods and services (the value of which includes, of course, the cost of simultaneous maintenance and depreciation of plant), added to the expenditure on new capital equipment (after deducting the cost of equipment bought out of undistributed profits) approximates to the net national income, which itself represents the amount distributed to individuals as wages, salaries and dividends. Next, it will be seen that in the six years covered by the above Table

approximately 5% of the available spending-power of the community was diverted from the purchase of consumers' requirements to the increase of capital equipment. In other words, for every pound received from industry in wages, salaries and dividends, or withheld as undistributed profits, nineteen shillings was spent on consumable goods, and one shilling was utilised to finance new equipment. This agrees closely with the illustration from "*This Age of Plenty*" quoted in Section 23, and confirms the general applicability of the argument to conditions in this country.

Finally, it will be noted how the proportion of national¹ income diverted from purposes of consumption varies with the general prosperity. From 1929, when the figure was about 5.8%, down to 1932, a notoriously difficult year, an increasing proportion of the national income was spent on consumers' requirements in order to mitigate the depression in the standard of living. But with the approach of more "normal" conditions, the amount so diverted again increased. Indeed, in present circumstances, the figures in the last column of the Table might almost be regarded as a barometer of national prosperity. But they also serve to show how, with increasing prosperity, there is a tendency to increase one of the basic causes of relapse.

Chapter IV

MONETARY DEMAND

Variation in Amount of Money—Current and Deposit Accounts—Slower Spending—Wholesale and Retail Prices—the Law of Prices—the Stock-Market—American Money Policy—Limitation on Banking Action.

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In the last chapter we saw how in the normal working of our present system there is a progressive lengthening of the time taken to recover through prices the costs incurred by industry. We saw that, as a result, production tends to outstrip consumption and then, when production is slowed down in order to clear stocks, wages and demand fall off together, and it takes even longer than before to recover costs through prices. This ultimately leads to industrial stagnation.

But in that chapter we assumed somewhat arbitrarily that the quantity of money in circulation remained constant, and that the rate of spending remained unchanged. Some such assumptions had to be made in order to reduce the problem to one of reasonable simplicity. But we must now recognise that both the amount of money in circulation and the rate at which it passes from hand to hand are subject to variation, and we must see what effect, if any, these variations have on the accuracy of our earlier deductions.

The average time taken to recover costs through prices is determined by (1) the amount of unrecovered costs as a whole and (2) the amount of money spent on goods in each unit of time. If there is an increase in the amount of money available to buy goods, each money unit

continuing to circulate at the same average rate, monetary demand increases. If the amount of money in the hands of consumers keeps constant, but they spend it more readily, monetary demand again increases. On the other hand, if the amount of money falls off, or the people spend less readily, monetary demand decreases. The effect of variations in the amount of our money and in the speed of spending must therefore be considered. And first as to variation in the total amount of our money.

Most new money comes into circulation through bank loans made either directly or indirectly to producers, and only becomes available to buy goods for consumption—"ultimate" goods—after it has been paid out in the wages and salaries distributed by industry. New money coming into existence in this manner creates on its way to the consumer's pocket at least as many costs as it is able subsequently to cancel. The creation and distribution of additional money in this way, therefore, does nothing to diminish the existing discrepancy between the costs industry must seek to recover through prices and the power of the public to buy.

But it is not the *absolute disparity* between industry's unrecovered costs and the consumers' unspent money that matters so much as the *ratio* between them. It is the *rate* of recovery of costs through prices which makes for industrial prosperity or stagnation, and this is largely a matter of proportion. The ratio existing between the power of the public to pay prices and the total of unrecovered costs can generally be prevented from falling by the introduction of new money into the system. A greater quantity of money flowing from industry in wages, salaries and dividends and back again to industry through prices does nothing to reduce the before-mentioned disparity, but it does tend to hasten the recovery of costs through prices.

If, for instance, people are habitually spending £1,000 per week and the total amount of unrecoverable costs at any given time is £100,000, the *average* time taken to recover costs through prices is 100 weeks. Even if new money, coming into circulation from banks through industry to consumers, is duly reflected in an addition to industry's unrecovered costs, it also increases the amount of money in the hands of consumers and therefore their ability to spend. The average period of turnover will, in such a case, be reduced, and the tendency towards industrial stagnation will be relieved. We know from experience that industry is generally more prosperous in periods of monetary expansion.

The creation and issue of additional money by the banks have, therefore, a very important effect on the industrial position. The total amount of money in circulation during any sufficient number of years shows an upward tendency, although for short periods it may vary upwards or downwards. The resulting expansion of the money supplies has assisted in keeping industry from collapse.

Unfortunately, as we have seen, there is under the present financial system a very definite limit to the amount of money that can be put into circulation, a limit bearing no necessary relation to the real requirements of industry. Unfortunately also, there are other difficulties in the way of stimulating our monetary demand continuously by ordinary banking methods, some of which difficulties we shall consider later. Consequently, although the gradual expansion of our money by current methods does undoubtedly assist in keeping industry from collapse, such expansion cannot from the very nature of the case be adequate in amount, nor does the new money enter the

industrial system at the most effective point or in the most effective way. Were it not for other palliatives complete collapse would no doubt have occurred long before this.

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The spending-power of the public, as we have seen, is made up of the amount of currency in circulation outside the banking system, added to the liabilities of the banks to pay out currency to depositors. Bank liabilities are themselves of two kinds. There is money "on current account," which consists of promises by the banks to pay out currency immediately it is required by the customer; and there is money "on deposit account," consisting of promises by the banks to pay out currency only at the end of a stated time or after a certain length of notice has been given. For all practical purposes money on current account is equivalent to money in active use. Money on deposit account has more the character of temporary investment.

It is, of course, by no means accurate to regard all money on deposit account as though it was not in any circumstances available for immediate spending, and on the other hand some money on current account might more appropriately be on deposit, as it is not intended to be used for the time being. Further, it is not unusual for money on deposit account to be paid out on demand, as a concession to the customer, and in any case money which is definitely and certainly available on notice is for many purposes equivalent to money at hand, less, perhaps, a small discount. As the writer has stated elsewhere.

"the distinction between current and deposit accounts is therefore a very fine one, and is further obscured by the common practice of referring to both kinds of account as 'deposits.' In a modern industrial

community the practical economic distinction appears to be in their average velocity of circulation. Current accounts on the whole represent money which the possessors are prepared to spend as opportunity arises: deposit accounts represent money which the owners regard as placed in reserve, or at any rate not intended for immediate spending. An increase in the proportion of deposit accounts to total deposits is therefore a clear indication of a decrease in the general velocity of circulation."*

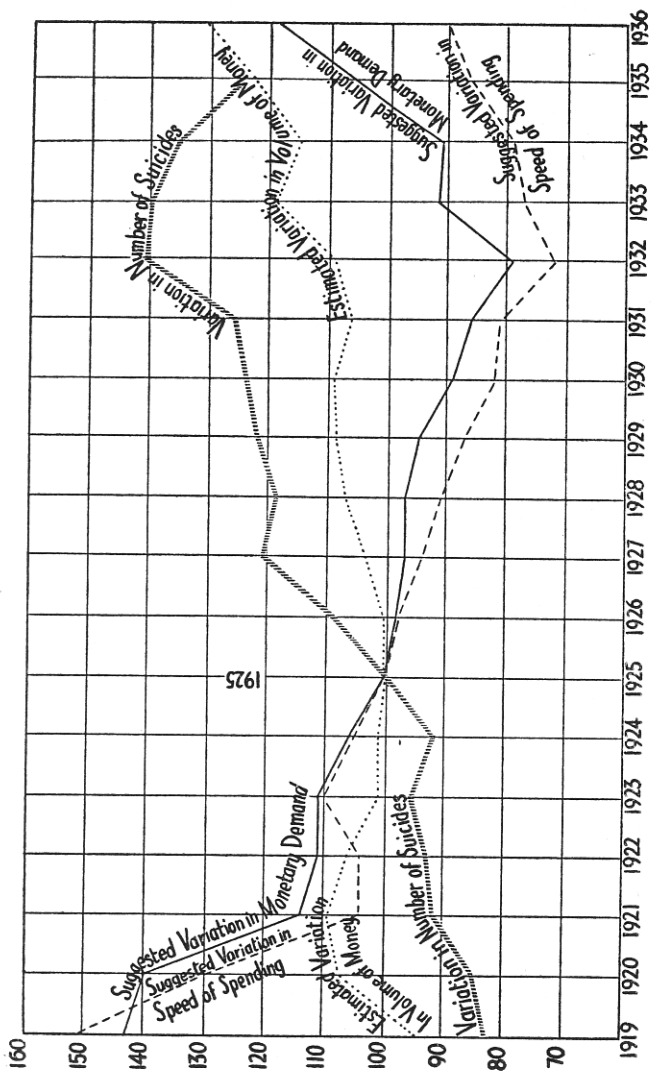
Variations in the proportion of current to deposit accounts at the banks probably indicate somewhat similar variations in the rate at which money in general is passing from hand to hand. It may be rash to conclude that the general velocity of circulation varies directly as the proportion of current to deposit accounts, but it is an assumption which, for the purposes of our argument, we shall dare to make. Any other assumption, on the scanty data available, would be equally rash, and the results of the calculations made on this basis are such as to render it probable that it is not extravagantly wide of the mark.

Referring then, to the diagram on page 82, the dotted line represents variations in the amount of money in this country from 1919 to 1935 inclusive. The broken line represents the suggested variations over the same period in the speed of spending, ascertained by reference to the simultaneous variations in the ratio of current to deposit accounts. The unbroken line represents the tendencies of monetary demand, calculated as explained in Appendix B. The amounts are, for purposes of comparison, scaled so that the figure for 1925 is 100 in each case.

According to the *Midland Bank Review* of Jan./Feb., 1930, it has been estimated that the world's active monetary stock should increase by about 3% per annum to deal

* "This Age of Plenty" (fifth edition), Section 17.

VARIATION IN MONETARY DEMAND



adequately with the normal growth in population and volume of trade. An estimate so expressed must, we imagine, pre-suppose a constant velocity of circulation so that possibly it would be more accurate to say that an annual growth of 3% in monetary demand is required to keep pace with normal expansion. What the annual increase should be to keep abreast of an industrial production set free from the restrictions imposed by artificially limited consumption, we dare hardly estimate, but it would certainly be far greater than the 3% sufficient to cover "normal" expansion. Yet contrasting the estimated monetary demand in 1919 with that of 1935, it will be seen how far its growth has fallen short of even "normal" requirement. The shaded line on the diagram—the suicide figures—supplies an appropriate commentary.

The diagram takes no account of price. It deals simply with the monetary demand available for the liquidation of costs. Between 1919 and 1932 we see a gradual shrinking of such demand, implying a gradual lengthening of the time taken to recover costs through prices, and recording the descent of industry into the slough of stagnation. Since 1932 we are shown a gradual increase of monetary demand, implying a quicker recovery of costs through prices, and recording the return to a period of very comparative prosperity.

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Assuming an approximate accuracy for the figures graphically shown by the unbroken line on the diagram, and recollecting the very arbitrary assumptions on which their calculation is based, we see at once how clearly they nevertheless explain the general tendency of industry and trade during the post-war years. It was in March 1920 that the Government, following the recommendation of the Cunliffe Committee—a committee composed almost ex-

clusively of bankers, under the chairmanship of Lord Cunliffe, Governor of the Bank of England—announced their intention of returning to the Gold Standard at an early opportunity. That year and the years which followed were years of deflation—years in which the actual amount of money was reduced by cancellation of bank loans and sale of bank investments—and (what is equally important) years in which the speed of spending grew less and less. So monetary demand decreased rapidly until the year 1925 when it seemed to have reached a certain degree of stability at a lower level.

Now why was it that the general public were so slow to part with their money? It might have been expected that, having less money, the public would have spent what they had more quickly, in order to try and maintain their standard of living. But in an industrial community organised as is our own, people can only spend what they first receive from industry. And as the banks called in their loans, producers and manufacturers were hard put to it to find the wherewithal to pay wages and salaries, while industrial dividends (though not bank dividends) dwindled to a very small proportion of their former selves. The trickle of money *from* industry became more attenuated, and consequently the return flow of money diminished, since people could not for long spend faster than they received.

Another factor preventing a general speeding-up of spending is found in what may be called “conventional delays.” Generally speaking, wages are paid weekly, salaries are paid monthly or quarterly, dividends are distributed half yearly, rents are paid at customary intervals depending on the size of the holding. In these and many other cases, there are well defined and understood delays,

preventing any serious increase in the rate at which money passes from hand to hand.

Another reason is to be found in the general feeling of insecurity caused by the increasing unemployment, the growing number of bankruptcies and company liquidations and the general bewilderment of people who saw the post-war prosperity of 1919 passing in a manner seemingly inexplicable. It was a time of reaction, when the substance seemed less real than the shadow, and when the money a man had in his pocket or his bank appeared to him "safer than the things it could buy.

A fourth reason is this. People saw prices beginning to fall, owing to failure of monetary demand, and they anticipated that this would continue. There was thus a strong inducement to them to "hang onto their money", which was daily becoming more valuable in terms of goods and services. The decrease in monetary demand was in this way the psychological cause of, and intensified by, a reduction in the speed of spending.

Lastly, of course, there was the official "campaign" throughout the country preaching "economy," which those who accepted, equally with those who advised it, interpreted to mean spending as little and as slowly as possible. The underlying idea was that if people spent less on themselves they would have more with which to meet taxation, and so "pay for the War." It was overlooked by those who sponsored this policy that to reduce expenditure was also to reduce incomes. The policy thus defeated its ostensible object. By reducing the national income it reduced the yield of taxation. Heavier and heavier taxes were imposed, until income-tax stood at 6/- in the pound, with correspondingly heavy super-tax and death duties. It also led to a definite lowering of the standard of living, and an unforgivable failure to utilise our resources.

The year 1925 appears at the commencement of a new period of comparative stability of monetary demand, but on a much lower level than in 1919. The lessened prosperity was the price this country paid for accepting the Cunliffe recommendations, and for the theoretical satisfaction of returning (if merely temporarily) to the Gold Standard. But the year 1925, the year of our definite "return to gold," did not mark the commencement of any new era of prosperity. Indeed, the slight increase in the amount of money in circulation in the years 1926-1930 was more than offset by the continuous decrease in the velocity of its circulation, so that monetary demand, after remaining comparatively stable for three years or so, began to decline sharply until the critical years of 1931 and 1932. Since then the banks have, by "cheap" money and open market operations, done something to stimulate monetary demand, so that the past few years have seen a slight increase not only in the amount of money available, but also in the willingness of people to spend, resulting, in 1936, in a monetary demand higher than in any other year since 1920.

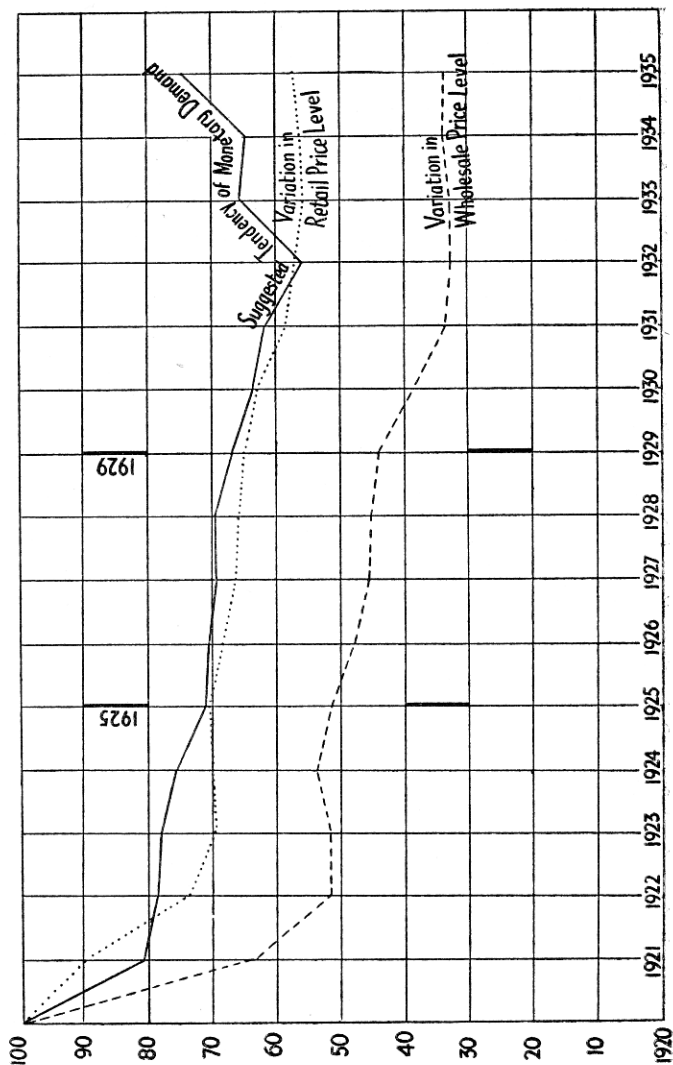
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The prosperity of industry is, on the whole, largely connected with the extent of monetary demand. The standard of living of the general public depends upon the amount of goods and services which their monetary demand can procure. How, then, did the general public fare during these eventful years ?

While industry was hit by lessened demand and falling wholesale prices, lower retail prices acted in themselves as some slight mitigation of the position in which the public found itself. The diagram on page 87 shows in the form of a graph the variations in the average cost of living.

VARIATIONS IN PRICES



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during the years 1920-1935, taken from the official figures published by the Ministry of Health. The fall in retail prices which these figures indicate will be noted, from which we may infer that the general standard of living did not fall off to quite the same extent as did monetary demand.

A combination of the figures showing variations in monetary demand and retail prices respectively might possibly represent, within wide limits, the variation which actually took place in the aggregate purchasing power of the consuming public during the years under review. But the limits are not sufficiently defined to make an actual tabular representation sufficiently accurate to be of practical use. Monetary demand exists for things other than retail goods, nor can it be assumed that the monetary demand for such goods represents any fixed proportion of the total.

Prices up to and during 1920 were undoubtedly at an artificially high level, so that it was only natural that the first effect of a deflatory money policy should be to bring them tumbling down with disproportionate severity. Accordingly we find that during the latter part of 1920 and the following year retail prices fell by about 28%. After the first precipitate fall, it was natural that with the continuous decrease in demand there should be a further lowering of prices. As, however, a decline in production was also a natural consequence of the slump in demand, the general level of retail prices thenceforward fell rather less rapidly than demand. It would doubtless have fallen less rapidly still if it had not been for the tremendous slump in world prices and the intense competition of imported goods. But fall it did, gradually and surely, to the discomfort of the community as producers and the benefit of the same individuals as consumers.

As is only to be expected, the same main tendency is observable in the general level of wholesale prices, as shown in the same diagram. Here too, after the rapid drop of the first two years of deflation, prices continued to fall steadily until 1933, except in the year 1924 when a slight rise took place, reflected in a smaller rise in retail prices the following year. If there had been no external influence, we might have expected a smaller drop in the wholesale price level, owing to restriction of production. Foreign competition, however, accentuated by the world slump, depressed wholesale prices in this country to an extent greater than would be accounted for merely by the decrease in our monetary demand.

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We may, perhaps, be permitted to digress for a moment to enquire whether or not it is possible to enunciate any "law" of prices. This depends largely on what is meant by "law." There are, of course many kinds of "law." One kind is typified by the law of gravitation, a natural law which no device of man and no amount of resolution or effort of the human will can alter. Another type of law is exemplified by an Act of Parliament. Such laws vary from country to country and from age to age. They are in fact nothing more than rules adopted with certain formalities in order that people may live and conduct their various businesses in an orderly way. Just as such laws can be made, so they can be altered. Then there is a third type of law which is merely the observed result of a certain kind of action in a given set of circumstances. If, in certain circumstances, a certain thing happens with sufficient regularity, there is a tendency to dignify this connection with the name of law. So-called "economic laws" are typical examples of this class. Such "laws"

are really social phenomena, and it is not only possible but extremely probable that a modification in the system under which society lives would result in other and quite different "laws," equally inexorable within the changed frame of reference.

Now it is most important to keep this distinction clearly in mind. Economic laws are not laws of nature, universally true and eternal, unalterable by man's device. Nor are they conventions or rules of society deliberately adopted or imposed from above. They are merely the observed results of what happens in given circumstances. But having said so much, we shall in future conform to custom, which is at any rate convenient if not strictly accurate, and refer to such social phenomena as "laws." Is there, then, any "law" governing variation in the price-level? It would probably be unwise to attempt to enunciate any "law of the general price level" more definite than that.

"Under the present economic system, the total prices of goods of any particular kind awaiting buyers will always be at least sufficient to absorb the simultaneous monetary demand for that kind of goods."

This does not seem to get us very far, but let us nevertheless pursue the line of thought a little further. The extent of monetary demand for goods in general is, as we have already remarked, determined by (1) the total quantity of money that people have at their command and (2) the rate at which they are prepared to spend it. If monetary demand increases we find, conformably with the law just enunciated, that prices tend to rise to meet the extra monetary demand, and/or that more goods are attracted to the market. Generally there is a combination of both these results, so that the rise in prices is generally

less than the increase in monetary demand, and purchasing-power as a whole rises. Speaking quite relatively, things are more prosperous. It is immaterial whether the monetary demand increases owing to a change in the quantity of money in circulation, or in the speed at which it passes from hand to hand.

Similarly a decrease in monetary demand, however induced, has the opposite effect on trade and the general price-level. It results in an actual diminution in the amount of goods brought onto the market and a reduction in their prices. But as the fall in prices lags behind the diminution in demand, there is a tendency towards a lower standard of living and towards industrial stagnation.

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The impression gained on a hasty survey of the problem, that it should be possible to prevent industrial stagnation by a judicious expansion of the money supplies, is seen to need substantial qualification. The first and possibly the least insuperable obstacle to a sane expansion lies in the upward limit set to the amount of our money supplies by adherence to conventional gold ratios. Release from this arbitrary restriction—and how arbitrary it is we shall see in more detail later—must be one of the first steps towards financial sanity. But it would leave many difficulties still to be faced. Variation in the rate of circulation would need careful watching, although indeed this could possibly be compensated by controlled variation in the amount of money. Then there is the further difficulty that wholesale prices and retail prices react in different degree to variation in the aggregate monetary demand.

But there is another difficulty, inherent in the fact that not all money available to buy goods and services is destined or used for that purpose. Some (it is difficult to

say what proportion (indeed, the proportion is always subject to variation), is diverted from what we may call the commodity market to the stock market—diverted from spending on goods and services to the purchase of stocks, shares and other forms of “securities.” There is, of course, considerable overlapping, but it is none the less true that in all highly organised communities there exist two or even more distinct cycles of business, each with its particular velocity of circulation. This unfortunately complicates the whole position and renders more difficult the task of the economist who approaches the question with a desire to test and substantiate his theories and surmises with ascertained data and statistics.

There is, perhaps, rather a tendency by writers on “the new economics” to under-rate the influence of the stock-market on monetary conditions generally. The unhappy experience of the U.S.A. during and since 1929, to which we shall refer again in the next Section, has shown us that an attempt to pursue an enlightened monetary policy may be completely thwarted by stock-market operations.*

It is therefore not difficult to understand how under our present monetary system, any conscious effort to pursue a definite economic policy merely by regulating the amount of money in circulation and without taking other precautions, tends to be defeated either by the reluctance or the over-eagerness of people to spend, or by the movement of prices and price-levels, or by diversion of money between the commodity market and the stock market. The control of the Bank of England over monetary conditions in this country is much more complete than the control exercised over monetary

* For a brief description of the organisation and activities of the Stock-market, see Appendix C.

conditions in the United States by the Federal Reserve Board. None the less, even in this country, the diversion of money available for spending on consumable goods to dealings in stocks, shares and other forms of debt, is a factor needing careful attention in any scheme of monetary reconstruction.

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Recollecting Mr. McKenna's observation that it is generally easier to recognise cause and effect when examining the conditions of countries other than one's own, let us turn to the United States for an example of the adoption of a "progressive" money policy based on accepted financial assumptions and see how things worked out in practice. Apparently for some years before 1929 those controlling the monetary policy of the United States had held in view the desirability of maintaining a stable level of prices, and this they attempted to accomplish by regulating the supply of money. But money can be used to buy anything that is for sale, and the creation of any given amount of money affords no guarantee that it or any ascertainable proportion of it will be used for buying goods or services rather than stocks and shares. This was the principal difficulty encountered in the attempt to stabilise the general level of prices in the U.S.A. As more goods were produced, more money was put into circulation to prevent prices from falling, but a large part of this additional money was used to buy, not goods and services, but stocks and shares, land and other forms of property. As money was diverted in this way, more new money was put into circulation in an endeavour to keep up commodity prices. Thus occurred a speculative boom, which continued until people realised that the value of industrial investments really depends on the demand for

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goods. Then speculation stopped, and the stock market crashed. Stocks and shares became valueless either to their holders or as security for loans. There was a rapid contraction in the supply of money. Industry was confronted with a still smaller demand for goods. The general level of commodity prices fell further. So developed the American crisis of 1929.*

Stabilisation of the price level is not necessarily the best monetary policy and, as we shall see later, is not one likely to achieve the maximum distribution of goods and services. But at least it is an understandable policy and one which should not, on the face of it, have been difficult to carry out in the United States. Although in those days America was officially on the gold standard, it had such abundant supplies of gold that the influx or withdrawal of that metal did not necessarily lead to any alteration in the amount of money in circulation. It was possible to neutralise the effect of gold imports by "sterilization" and (seeing that the gold cover was so much in excess of requirements) it was also possible for considerable exports of gold to be made without any necessary contraction of the monetary supplies. In other words the amount of money in circulation could be fixed without reference to gold at all. However, even with its special advantages, the American banking system was unable to carry out its monetary policy for any length of time, because it knew no way of enabling existing industrial products to be consumed except through the financing of further production, nor, when the new money was created, had it any effective method of controlling the speed at which it was spent or the use to which it was put.

* Cf. G. D. H. Cole, in "*The Intelligent Man's Guide Through World Chaos*," at page 279.

(34)

There are still other difficulties in the way of maintaining an adequate monetary demand for goods and services within the framework of the existing financial system. The increase of money nowadays depends not only on the willingness of the banking system to lend, but also upon the willingness of *acceptable* borrowers to come forward. This is often a matter outside the control of the banks. Banks can always limit loans, and so contribute definitely towards a scarcity of money. But they cannot always of their own initiative expand loans on a profitable and safe basis. In a period of falling prices an offer of "cheap" money is but a small inducement to borrow as, however "cheap" the money, falling prices make it expensive in terms of goods. Borrowers are then generally more concerned to reduce their commitments than to incur fresh ones, and the financial stability of those who are anxious to take advantage of "cheap" money will in many instances be regarded by the banks as questionable. In such cases the banks quite reasonably prefer to lend less than they might do, rather than jeopardise their position by lending to persons and firms whose ability to repay they mistrust.

When prices are falling, industrial securities, though probably cheap, are not usually attractive investments. The only alternative way of increasing the money supplies seems to be through loans by banks to the State. But how can such loans be made unless the State wishes to borrow from the banks? And how can bankers advise the State to do anything so unorthodox as deliberately to unbalance its budget?

We are forced to conclude, therefore, that although monetary policy may mitigate or emphasise the restrictive effects of the present money system, no policy leading to

general prosperity can be maintained by methods which allow additional money to come onto the buying side of the market only through the processes of production and as the reflection of additional debt to the banking system, or by methods which do not in some measure ensure that the new money when it eventually reaches the consuming public is actually spent on consumption. Whatever suggestions are ultimately made with regard to the difficult question of adapting our financial system to the increasing powers of our productive system, these factors must be borne in mind, particularly by those who have a natural tendency to consider that it is merely a matter of having the right amount of money in circulation to overcome all the economic difficulties of our modern industrial civilisation.

Chapter V

EXPORT, FOREIGN TRADE, INTERNATIONAL DEBT AND WAR

Insolvency—Export—Foreign Competition—The Reparations Muddle—Great Britain's Balance of Trade—The Impasse—Export and Employment—War.

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An increase in monetary demand, whether occasioned by an increase in the amount of money in circulation or by a greater rapidity of spending, is by no means the only palliative affecting the present financial system. If it were, the system would probably have collapsed many years ago. Insolvencies, including bankruptcies, company liquidations and capital reductions also play their part—paradoxical as it may seem—in perpetuating the system.

Insolvencies and reductions of capital are, of course, in effect merely the process of investment reversed. They are the deliberate and despairing abandonment of an attempt to recover all costs through prices: they are breaches of one of the fundamental axioms of modern business: they are attempts to make the best of very bad jobs. But it is just because they do violate one of the accepted axioms of business that they also tend to delay the complete breakdown of the system. However, the importance in this connection of insolvencies and capital reductions is comparatively so slight that we shall not spend further time upon them except to remark that they are becoming a commonplace of the present system, and that any drastic increase would lead logically to the end of the system altogether, as no one would deliberately enter into business if he had before him a

probability amounting almost to a certainty of bankruptcy or loss of capital.

(36)

A third palliative is to be found in the sale on foreign markets of the goods which members of the exporting country cannot afford to purchase for their own use. Every industrial community strives to-day to export a greater value of goods than it imports from other countries, a consummation welcome by its financial experts as "a favourable balance of trade." It strives, that is to say, to exchange its existing goods for future claims on goods.

In this connection the story of British investment abroad is illuminating. Practically every year since the commencement of the industrial era Great Britain has produced more goods than her citizens could afford to purchase for consumption. A simple exchange of her surplus products for the commodities offered by other nations would have provided no solution, for either the products received in exchange would themselves have been unsaleable, or else they would have forced other home products off the market. This would have left matters very much where they were so far as the relation between production and consumption was concerned. But at the same time the foreigner could not pay the exporter for his goods unless he had British money with which to do so, and if the people in Great Britain could not afford to buy goods, how could they afford to lend to the foreigner?

To answer this one must distinguish between money in the hands of would-be consumers at home and money earmarked for investment either at home or abroad. It is not possible, of course, to finance home consumption directly without violation of many assumptions, if it be granted that the amount of money in circulation can

only be varied through banking operations. A bank is a commercial and not a philanthropic undertaking, and every banker's "promise to pay" must, except for the small part covered by tangible assets, be covered either by investments or else by the promises of people to pay currency to the banks. Every issue of new money therefore reflects additional individual or collective debt to the banking system, and debt requires a promise of and usually security for repayment. This requirement is fulfilled when money is advanced to a manufacturer on security of his factory, for the underlying idea is that the debt will in due course be repaid out of the prices realised for the goods produced. But money issued directly for consumption would be money intended to be spent on perishable goods—on the practical affairs of living. It would not be intended to be repaid to the issuer. How could a banker advance money on such a basis and remain solvent? Wherewith would he meet his own "promises to pay"? On the other hand, it is quite sound finance to lend money to some foreign government or corporation to purchase goods in this country for export. There is "security" for such a loan—a promise to repay on the part of the government or corporation concerned.

This does not mean that British money necessarily or even usually left this country. If some Foreign State required a loan to enable it to purchase railway material in the United Kingdom, the money subscribed in this country was used to pay the British exporters of rails and locomotives. Accordingly, goods left this country in exchange for foreign promises to pay money at some future date, carrying interest in the meantime. It is important to note that the money was loaned, not by the manufacturers of British goods but by another section of the British community, namely investors operating largely

through the international banking houses, who directly or indirectly paid the British manufacturers for the goods they sent abroad. As Mr. G. D. H. Cole reminds us*

"In 1850 British capitalists had perhaps £230,000,000 invested abroad, mainly in Government stocks, with a sprinkling of commercial and mining investments. By 1876 the total had increased to about £1,200,000,000. Between 1860 and 1876 nearly £950,000,000 of new capital issues for overseas use can be traced in the London market. Rather more than half this total consisted of Government loans, including railway guarantees, and rather less than half of all other investments put together. The railways in U.S.A. alone absorbed over £70,000,000, and railway securities easily occupy the next place after public loans. It has been estimated that in 1914 British investors had at least £4,000,000,000 invested abroad, and of this sum more than £1,500,000,000 was in railway securities and £1,000,000,000 in Government loans.

"No other country had in 1914 even half so large a total overseas investment as Great Britain. France is estimated to have had about £1,800,000,000, Germany £1,200,000,000 and the United States £540,000,000. The foreign investments of U.S.A. were mainly in South and Central America, while the French and Germans invested mainly in Europe and in their own colonies. But in all cases the total included a large mass of investments in railway securities, besides the proceeds of Government loans which had been devoted to the building of State-owned railway systems. France, outside her own colonies, had specialised chiefly in public loans and in the financing of the economic development of Russia; while Germany had distributed her investments about equally between Europe and the rest of the world, with a preponderance of fixed interest-bearing securities. Only British investment was very widely spread over all countries

* In "*The Intelligent Man's Guide Through World Chaos*," at page 123.

and every type of bond and share both public and private."

In this way British factories and workshops were kept busy supplying the needs of the rest of the world, and British industry appeared relatively prosperous. So long as the amount of new foreign loans, added to the price paid for imported goods, exceeded the cost of the exported goods by an amount at least equal to the interest repayments, it was possible for the investors to receive their interest, and for the British manufacturers to receive payment for their exported goods—but always the benefit of British enterprise and effort was being presented to the foreigner, who obtained the goods against his promise to pay for them at some future date. The British workman received wages with which he was enabled to divert to himself some of the remaining goods and services which the community had produced for home consumption, or to purchase some of the imports grudgingly admitted in exchange for a fraction of our exports.*

(37)

As already remarked, it is not merely a matter of exchanging surplus stock for the produce of other lands. Export is a source of employment: imports in return compete with the home-produced goods. The means whereby foreigners can pay for our exports and the interest on existing debts must either be borrowed or earned, and to-day as a natural result of our previous investments, we are becoming seriously embarrassed by the attempts of other countries to "earn" British money.

Many of the goods exported by Great Britain enabled the recipient countries to satisfy their own wants and,

* Cf Chapters II and III of "*A Main Cause of Unemployment*," by P. C. Loftus, M.P.

later to commence exporting. As this also enabled the borrower to pay the interest on his loans, this development was agreeable to the investors ; on the other hand, it produced new competition for our exporting manufacturers. Nor is this merely past history. The same thing is happening daily at the present time. For instance we read in the "*Sheffield Daily Telegraph*," of 7th April, 1934, that

" sixteen tons of Barnsley-manufactured bobbins left this country yesterday for China, the consignment being the first to be sent to that country by Messrs. Wilson & Co. (Barnsley) Ltd. The firm has secured substantial contracts to supply bobbins to the Government of Canton, China, and the first consignment of 1,400 gross will be followed by a similar consignment now in process of manufacture.

' China is expected to go very far in cotton manufacturing,' said Mr. J. Riley, Works manager of Messrs. Wilson's Beevor Bobbin Works, to a *Sheffield Telegraph* representative yesterday. 'This is virgin ground so far as bobbin makers are concerned, and we feel that this is only the beginning of the textile industry in Canton. The bobbins are intended for the spinning, woollen and weaving machines sent to China by British manufacturers. The Canton Government is building three mills, and we have secured the contracts for supplying the bobbins for the first and second mills. It is a good contract, and was obtained in face of severe British competition, for British bobbins are supplied for British machines which, as a matter of fact, were made in Lancashire.'

" The Barnsley firm's enterprise in securing these contracts for the far East market is welcomed by their employees, who number between 500 and 600."

The joy of the displaced cotton-spinners of Lancashire can also be imagined.

As other nations have become industrialised, British exports as a whole have tended to decline in comparison

with imports, and the relief to the market and the provision of employment have diminished correspondingly. Yet the foreign borrower cannot continue to pay interest on his loans unless we accept and pay for his produce. The whole position has become so chaotic that we find Mr. Colin Clark, of Brasenose College, Oxford, and Lecturer in Statistics at Cambridge University, suggesting in all apparent seriousness that

“ if somebody would invent a new system of mathematics whereby every country should import less and export more, he would be doing the world a great service ; but under our present rules of arithmetic it is impossible. The balance of trade of all countries in the world, some being positive and some negative, must of necessity add up to zero.”*

Does Mr. Clark, then, really believe that if in some miraculous way each country were able to get rid of a quarter of its production by sending it to the moon, receiving lunar debts in exchange, the world would be so much better off ? Would he not prefer us to infer from his remarks that if someone would invent a method whereby the members of every industrial country (regarded as producers) should be able to recover from themselves as consumers, through prices, the costs which they now attempt to recover by exporting goods abroad, he would be doing the world a great service ? If so, the method has already been discovered, although, in common with many others, Mr. Clark has apparently not yet realised the fact.

(38)

A clearer picture of the difficulties engendered in trying, within the framework of the present system, to obtain goods and services from abroad without ruining

* In *“What Everybody Wants to Know About Money,”* at page 425.

the trade and industry of the recipient nation, is furnished by the tragi-ludicrous story of Reparations.

The Treaty of Versailles fixed upon Germany liability to make reparation for the damage done in the Great War, leaving till later the fixing of the actual amount of that liability. The Allies did not demand actual physical repair of the devastated regions—generally speaking their own nationals were ready to undertake that—but sought financial payment for the damage done, and a commission was set up to fix the amount of such payment.

In 1919, Lloyd George announced in the House that Germany could and should pay £24,000,000,000, but by the London Agreement of 1922 the figure was fixed at the equivalent of £6,600,000,000. In 1924, a Committee of financial experts met and formulated "the Dawes Scheme," whereby a standard annuity equivalent to £125,000,000 was fixed, payable for an indefinite number of years. In January 1930, another scheme, "the Young Plan," was submitted, whereby Germany was required to make for 36 years monthly payments averaging £105,000,000 annually and for a further 22 years monthly payments averaging £75,000,000 annually. Next year came the Hoover moratorium, and by now the question of reparations is passing more and more into that limbo where financial experts lose their mistakes in order to save their reputations.

The essential difficulty arose from the fact that no "expert," however highly paid for his trouble, could solve the problem of enabling or compelling Germany to provide in gold or non-German currencies sums efficient to meet the annuities as they arose without involving the creditor nations in economic ruin. Germany could only obtain the money to pay reparations either by borrowing or earning

it, and in the long run, of course, could only discharge her debts in goods (including gold) and services.

The logic of the position was not immediately apparent, because Germany managed at first to meet her obligations by borrowing abroad, mainly from financial houses in the United States, and using the proceeds to pay her debts and meet her reparations commitments. But there was obviously a limit to this procedure, and at last the impossibility of the situation was seen in all its madness by those who had eyes to see. While each industrial nation of the world was individually striving to maintain a favourable balance of trade, by finding customers abroad for its own goods and excluding as far as possible the goods of other nations from its own markets, the industrial nations as a body were combining to demand from Germany the fulfilment of obligations which she could only accomplish by penetrating their own jealously-guarded markets.

But orthodox finance was slow to comprehend the inherent impossibility of the position, and strove to maintain the appearance of sanity by periodically scaling down its demands against Germany. It was a graceful retreat—though some might have called it a rout.

(39)

So far we have discussed commercial transactions between different nations as if they were confined to the import and export of goods. As a matter of fact, these commodity transactions form only a part, although a very considerable part, of international trade. External trade also includes transfers of bullion, and a class of items usually and conveniently known as "invisible" imports and exports. These latter make a profound difference to the final balance of indebtedness between countries. For instance, in the years immediately preceding the war

Great Britain's commodity trade showed, financially, an annual adverse balance of approximately £140,000,000. At the same time, however, people resident in Great Britain were receiving from abroad nearly £200,000,000 annually by way of interest on their foreign investments, and shipping services were earning this country about £100,000,000 a year. Commission for banking and other monetary services also brought in a large income, so that the final financial balance was largely in favour of Great Britain. Each year before the war the rest of the world was increasing its indebtedness to her, and even for many years after the war Great Britain continued to strengthen her creditor position. Although apparently satisfactory (if viewed through orthodox spectacles), Great Britain's position was highly precarious. New machines, as invented, were available for manufacturers in other lands. At the same time machinery was becoming more and more fool-proof, so that Great Britain no longer held an advantage from the hereditary skill of her workpeople ; besides, the standard of competence was rising all over the world. Thus was lost the former premium upon the traditional skill of British operatives.

Again, the indebtedness of the world to Great Britain could only continue to grow so long as British investors were willing to lend abroad. If, for any reason, investors do not feel disposed to invest abroad, then foreigners cannot buy from us except to the extent that we are prepared to buy from them, and the payment of interest on existing investments becomes impossible, except when there is otherwise an "unfavourable" balance of trade.

The table opposite, showing variations in the balance of trade of this country between the years 1925 and 1936 is compiled from various sources, each of which appears to differ slightly from the others. Chiefly the sources in

GREAT BRITAIN'S BALANCE OF TRADE
(£ millions).

	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
Excess imports (silver and merchandise)	392	458	383	352	381	386	408	287	263	294	260	347
Shipping earnings	124	120	140	130	130	105	80	70	65	70	75	95
Income from foreign investments	250	250	250	250	250	220	170	150	160	170	180	195
Commissions and other items	75	79	79	95	104	89	54	45	38	47	38	38
	449	449	469	475	484	414	304	265	263	287	293	328

Balance.—

Excess of export ("favourable")	57	...	86	123	103	28	...	...	...	...	33	...
Excess of import ("unfavourable")	...	9	...	...	...	...	104	22	...	7	...	19

question are the *Midland Bank Review* for March/April 1932, and for March/April 1937, the *Statistical Summary of the United Kingdom* for 1934, and the *Board of Trade Journal* for February 1934. But, although the figures can only be accepted as approximate, they are substantially accurate. Imports and exports of gold bullion are deliberately excluded from the foregoing Table, because they have really no effect on the present argument. Every import or export of gold by a creditor country, while increasing or decreasing foreign indebtedness to that country, increases or decreases by a similar amount the means of cancelling such indebtedness. Increased debt due to influx of bullion is offset by increased means of payment, and decreased debt due to export of bullion reflects a corresponding decrease in the means to pay.

Excluding 1926 which, because of the General Strike was an exceptional year, it will be seen how up till 1930 Great Britain was always, on balance, adding to the strength of her creditor position. So long as she was content to lend abroad the equivalent of the "favourable" balance, there was no immediately apparent reason why the position should alter. But examining the figures for income from overseas investments, we see how the general slump in international trade and the increasing poverty of the debtor nations made it more and more difficult for our investors to obtain their usual return on foreign securities. The revenue from this source, which in 1929 was estimated at £250 millions, was estimated at £170 millions in 1931, and only £150 millions in the following year. The effect of this and of the decreased earnings of our shipping industry was to turn our "favourable" balance of nearly £100 millions annually into an "unfavourable" balance of substantial dimensions.

Gradually, however, the position is approaching equilibrium. The figures for 1933 and after show that on balance there is now little to choose between our imports and our exports. Our "invisible" income just pays for our excess of "visible" purchases from abroad, and probably this position will be maintained. It depends, of course, very largely on the amount of our overseas investments. If these increase, then no doubt exports will increase relatively to imports, and our "invisible" income will probably also expand. Note here a curious parallel between home and foreign trade. The more, as a community, we spend with each other, the greater is the national income and the more we have to spend. Similarly, the more we lend or spend abroad, the more we receive in return either as payment for exports or interest on earlier investments.

(40)

When a creditor nation insists on maintaining "a favourable balance of trade" there can, in the absence of repudiation or cancellation, be only one result. Other nations must, on balance, go further and further into debt. Unfortunately for the creditor country, there is a limit beyond which this cannot go. When nations become so deeply indebted that neither the Governments nor the nationals of creditor countries are willing to grant further "credits," it becomes obviously impossible for them to purchase the goods which the creditor nations wish to export. Indeed, they are only able to pay interest on existing indebtedness (if at all) by means of exports to the creditor countries. The money paid by the importers serves as payment for the investors. But if the creditor country accepts the goods as imports, unless it is at the same time prepared to accept a higher standard of living—that is, unless the financial authorities within the country arrange for their nationals to have additional money

sufficient to pay for the imports—such country will have to face intensified unemployment for its own people.

So here we reach an impasse. If the country accepts the imports, it must, within the present system, accept also an intensified unemployment problem. If it does not accept the imports, then such of its nationals as have investments abroad will lose their interest and probably their capital also.

The importance attached to foreign trade must not blind us to the fact that it represents only a relatively small proportion of total trade. Mr. G. D. H. Cole, in "*The Intelligent Man's Guide Through World Chaos*," (page 355), gives figures for the imports and exports per head of population for various countries in 1929, from which the following are selected :—

Country.	Imports per head of population.	Exports per head of population.	Total.
New Zealand	158 dollars	176 dollars	334 dollars
Denmark ...	129 "	123 "	252 "
Holland ...	141 "	102 "	243 "
Canada ...	127 "	114 "	242 "
Belgium ...	119 "	108 "	227 "
Switzerland ...	127 "	99 "	226 "
Australia ...	106 "	107 "	213 "
United K'gdom	118 "	78 "	196 "
Sweden ...	78 "	80 "	157 "
Argentine ...	75 "	81 "	156 "
France ...	55 "	46 "	101 "
Germany ...	50 "	47 "	97 "
United States	35 "	42 "	77 "
Japan ...	16 "	15 "	31 "
Russia ...	3 "	3 "	6 "

Perhaps the most surprising feature about this table is the lowly position occupied by the United States and Japan, while even our own country, which is said to live by its foreign trade, ranks no higher than eighth. Per head of the population, Great Britain in 1929 imported approximately £24 worth of goods and exported £16 worth. It is not easy to calculate the total value of British production but it is safe to assume that in 1929 Great Britain produced at least £5 worth of goods for home consumption for every £1 of goods produced for export, while in 1932 the proportion was probably higher.

(41)

If that mysterious figment of the imagination "the man in the street" is asked why Great Britain seeks foreign markets he will, if he has any reply at all to offer, probably paraphrase some old electioneering tag to the effect that this country lives by its exports. The picture of Britannia flourishing on what she sends abroad is not a convincing one, so perhaps we should accept the phrase as meaning that we must export to pay for the imports on which we live. If this is what is meant, why should there be such reluctance to accept imports?

Really, so long as employment is regarded as a necessary condition of the receipt of income, we do not export "to live," but to "earn a living." Exports are not needed so much for the purpose of securing imports as for avoiding unemployment. The position is quite frankly stated in the Report of the Macmillan Committee.*

"We are dependent on very large imports to maintain our standard of living and on very large exports to maintain employment; but to pay for these imports we have become largely dependent on our interest from our foreign investments, and on our profits as

* Paragraph 100.

international bankers, merchants and so forth. Since 1913 our nett imports have increased from £659 millions to £958 millions in 1930, though as prices have risen and the territory covered has changed, the volume of imports to Great Britain and Northern Ireland increased by 18% only ; our domestic exports, while increasing in value from £525 millions in 1913 to £571 millions in 1930, owing to higher prices, have in volume decreased by about 32%, if changes in the quality of the goods are left out of account. While the increase in imports of food and raw materials has helped to maintain our standard of living, the decrease in exports and the increase in imports of manufactured goods have caused much of our unemployment."

If employment was not a necessary precedent to a decent livelihood for the majority of people, Great Britain could afford to regard with equanimity a fall in exports so long as she was able to maintain her imports. Her only real concern would be to insure that she was able to obtain from abroad the food and raw materials which she needed and was unable or unwilling to produce at home owing to climatic or other conditions. That this is not so was seen clearly in the case of reparations. Here was no question of exporting goods in order to obtain goods from abroad. Germany was quite willing to let us have goods : the only difficulty was that such goods would jeopardise employment in the recipient country. The ultimate objective of our foreign trade stood revealed in all its folly—not the acquisition of goods, but the acquisition of mere titles to goods. Imports, even of commodities which people needed in order to live, were regarded as a danger to their means of livelihood.

But there is another very important consideration which should be mentioned in connection with international trade. As we shall see later, foreign trade is essentially

a form of barter. In theory, at any rate, so long as the gold standard is in operation, trade movements are balanced from time to time by transfers of gold. How and why this is so we shall see when we discuss the question of foreign exchanges. But even when the gold standard is not in operation, it is the country with the largest "favourable" balance which is in the strongest position to attract gold within its borders. The gold is received as an ordinary commodity, but its presence under the existing system is a conventional permission for the creation of additional money by the banks. On the other hand, a country losing gold has usually, if it "plays to the rules," to contract its already too restricted money supplies. Hence we find yet another reason why industrial countries are all, at the present time, striving to secure or maintain a "favourable balance of trade."

(42)

But if, under the present system there is this insistent and irresistible urge for Great Britain to maintain a "favourable balance of trade," it is equally insistent and irresistible in the case of all the other industrial countries. Every year, as Science progresses, the amount available for export increases. Every year, as more and more nations become industrialised, export markets shrink. The intensified struggle for foreign markets is probably the most fruitful cause of war.

"In the eighteenth century, France and Great Britain had been the great commercial rivals. But the immediate issue between them was settled by the Napoleonic Wars, and in the nineteenth century the different development of their economic systems tended to remove the causes of rivalry. The new industrialism made Germany and Great Britain the protagonists of the struggle for economic power. For German industrialism, beginning much later than

British, developed along lines which led directly and inevitably to the keenest economic rivalry. Germany did not indeed seriously challenge British supremacy in the textile trades ; but she set out with concentrated energy to develop just those industries which were ousting textiles from their old predominance in international trade. The great new discoveries in the technique of steel production from the Bessemer and Siemens processes in the 'fifties and 'sixties to the inventions of Gilchrist and Thomas in the 'seventies came just in time to provide the basis of the new German industrialism. Great Britain had to scrap and re-equip her great iron industry in order to adapt it to the new opportunities for the mass production of steel. In the new age of steel, Great Britain and Germany then started level as rivals for the command of the rapidly expanding world market, and the possession of Alsace-Lorraine and the Ruhr enabled Germany to forge rapidly ahead. In the middle 'eighties British steel production was still more than twice that of Germany, and still ahead of that of U.S.A., which was practically all absorbed in the home market. But in the 'nineties the American production easily outdistanced the British, and early in the twentieth century Germany also went ahead of Great Britain in the production of steel. At the same time there was a great development in the metal raising industries : and the German producers became the most important rivals of the British in the world market for a wide range of engineering products. Anglo-German rivalry thus came to be the dominant factor in the political relationship of the new era of economic imperialism."*

And so came 1914. Not, as in the early days of man's story, a war to capture from some rival his coveted possessions of wealth or cattle ; not, as with the so-called lower creation, a struggle for food or mates. No. Man has

* G. D. H. Cole, in "*The Intelligent Man's Guide Through World Chaos*," at pages 130 and 131.

advanced beyond that. He goes to war to-day to capture "markets"—to compel foreigners to buy the goods he has himself laboured to produce, and at the same time to prevent the foreigner from earning the wherewithal to buy. A nobler, less materialistic aim, think you? Or a tragedy of stark madness? As Professor Soddy has it in his "*Cartesian Economics*,"

"The industrialised countries of the world are, with an enthusiasm reminiscent of a lunatic asylum, turning out an ever increasing plethora of mere factory products and sending them forth to compete in ever-shrinking markets . . . The only goal in sight is war, and yet more war."

It was the late John Hodgson, in "*The Great God Waste*," who reported that

"our late Chancellor of the Exchequer informs us that of every pound contributed to taxation we spend 12s. 9d. on past wars, 2s. 8d on future wars, 1s. 4d on education and 6d on health and housing."

Is further comment needed? The curious fact about it all is that war is not only a necessary consequence of the present system, it is one of the main palliatives. War is almost inevitably the occasion for a great expansion of purchasing-power. In the face of overwhelming dangers, the limitations imposed by orthodox financial theory tend to be disregarded. Financial conventions have to conform to practical considerations, and it is only when the danger is passed that physical and technical capacity has again to become subservient to monetary theory. War alone makes the present system in any way possible or endurable, for during times of war the problem of consumption is temporarily solved. The most urgent task of the present generation is to solve the problem of consumption in those periods of preparation for or recovery from War, known as Peace.

Chapter VI

UNEMPLOYMENT

Contributory Causes of Unemployment—The Technological Explanation—Displacement of Labour—A Cumulative Process—Rationalisation, Export and War—The Outlook—Attitude towards the Unemployed—Change in Nature of Employment.

(43)

We have seen how the natural result of trying to distribute the fertility of an age of power solely by means of a money mechanism derived from an era of handicraft, has been a pitiful failure to grasp the plenty which, physically, is ours to command. Existing means of production are either unworked or are operated far below capacity—nor is anything like full advantage taken of new inventions and fresh discoveries. And not only are there idle machines, there are also idle men : so that to some extent the problem of unemployment can be considered as the problem of speeding up industry until factories no longer remain idle and men who desire goods are no longer denied the means of earning the wherewithal to claim them. But this is only a very small part of the story.

Apart altogether from the unemployment which results from the artificial limitations imposed upon our productive system by adherence to an inadequate money mechanism, there is another aspect of the question, nowadays known as “technological” ; this is the problem of the leisure which is created as machines progressively undertake the toilsome burdens formerly borne by man.

But before we consider more fully the technological aspect of the problem, there are one or two subsidiary

causes of unemployment which it would be well to notice. In the first place, the invention of new processes and new types of goods to satisfy man's requirements may lead to the abandonment of certain industries and established methods of production. It is, of course, true that many of those persons who were formerly employed in making the original article will find re-employment in creating the new type of goods for which a demand has arisen, but it is quite obvious that there must be a period of adjustment during which time persons displaced from one form of employment have not found fresh employment in the newer form. Since this is going on continuously in all manner of industries, there will always be a certain number out of work whose unemployment can be traced, not so much to the replacement of labour by machinery, as to changes in fashion and demand. This is a point which ought not to be overlooked, although it cannot to any great extent explain the tremendous amount of unemployment at the present day.

Then, again, we must refer to the turn in the tide of migration so far as this country is concerned. For many years prior to 1931—probably ever since the age of power commenced—there had been each year a greater number of persons leaving this country than entering it. Each year Great Britain sent anything from 50,000 to 250,000 of her sons and daughters abroad, usually to seek their fortunes in the open spaces of the Empire or in the ample territories of the U.S.A. To that extent the congestion of the home labour market was reduced. But in 1931 for the first time for many years there was a surplus of immigrants, an even greater surplus in 1932 and almost as great a surplus in the following years. This, we are told, has meant new competition for jobs, and a new addition to the number of our unemployed.

A similar explanation is found in the natural growth of population. An assertion that there are more boys than ever leaving school and seeking work is made to account for the increasing intensity of the struggle for jobs. But is this sound? Population is indeed growing, but this seems to be due to increasing longevity rather than to a rising birth-rate, pointing to an increase of "mouths" as great as or greater than the increase in the number of "hands."

* quote
To regard an increasing body of willing workers as an intensification of the problem of finding jobs, is to overlook the fact that they are at the same time willing consumers. As such they should themselves provide the jobs they seek, unless—and it is a very big UNLESS—an individual as a consumer is less efficient than the same individual as a producer. If this is so, then the exigencies of the situation would appear to demand the removal of that individual. The removal of his demand would tend to reduce employment to an insignificant extent, while the removal of his energy would relieve the unemployment market of one of its human embarrassments. We should get nearer and nearer to a balanced perfection as we grew fewer in number, until the last survivor—unemployed one day in two (owing to his efficiency as a producer and his inefficiency as a consumer) committed suicide, and a perfect balance of production and consumption was at last attained.

The fact is that under existing circumstances man as producer, equipped with machinery and power, can provide far more than man as consumer, with his limited money, can buy, and possibly even more than man as consumer, with his limited wants, can use. And this brings us, once more, to the technological explanation of unemployment.

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The unemployment problem is not a new one, but it is only since the early nineteenth century that the technological aspect has assumed a growing importance. Before the advent of the power-age, what unemployment there was can be traced to definite, extraneous and possibly temporary causes. But for the last 150 years industrial processes have developed at an accelerating rate, and by the end of the Great War the problem had definitely assumed a permanent and intensive character. Unemployment had become a more severe and apparently more baffling problem than ever before. We had, because of the War, leapt in the space of five years to an industrial situation which we should probably have reached in twenty or thirty years had not the War intervened. The problem is, indeed, inherent in the circumstances of the power age, and although the intensity of unemployment may vary from time to time, there will always be henceforward a large and on the whole, increasing proportion of the population unemployed.

"In 1930 the total capacity of machinery throughout the world, excluding motor cars, amounted to 390,000,000 h.p. For purely theoretical purposes, we may take one horse power as equivalent to the labour of ten men. On this assumption, the world had in its machinery a non-consuming labour force representing 3,900,000,000 in addition to its human population of about 2,000,000,000. That is to say, for every consuming unit in the world there are about two non-consuming productive units.

"Taking the nations as a whole . . . although the actual production statistics of the various countries may not be strictly comparable owing to differences in methods of compilation etc., it is permissible to compare the co-efficients of increase of population, production and power-capacity. From such a comparison the only conclusion that can be drawn is that

throughout the world a long-term tendency exists for increase of power-capacity to exceed population and manufacturing production.

"As production is exceeding population, the standard of living is rising, but as power-capacity is increasing more rapidly than production, the latter is to an ever-increasing extent being carried out without human labour

" . . . If the increase of power-capacity exceeds that of production, and production that of population, then the tendency for the rate of population to decrease relatively to power-capacity must be intensified. Simultaneously, the accumulation of surplus production must accelerate, since the consuming-power of the falling population must decline relatively to the production. In other words, the economic life of the nation to-day is involved in one, and possibly two or three, vicious circles; the problem is one of men, money or machines. The accumulation of surplus can only mean the accumulation of catastrophe. Under existing conditions of society, surplus can only be dissipated by war, and it is significant that in modern times most wars have started in periods of falling prices.*"

In an address on "*The Economics of Abundance*," reported in "*The Listener*," for 31st October, 1934, Stuart Chase recounted to us the following experience :

"Not very long ago I visited the plant of the A. O. Smith Corporation at Milwaukee. There I found a great machine, filling the whole building, which seizes raw steel at one end and pushes out finished frames for automobile bodies at the other end, ten thousand a day—three millions a year. There is one building can supply frames for more automobiles than the entire country produced in 1933. But attending this machine are fewer than 200 men; they simply

* D. Ferguson, in an article on "*Machinery and Unemployment*," in "*World Power*," for Nov., 1932.

set gauges, inspect the process, control the endless flow of shining frames. And side by side is another building of an older design which uses a semi-automatic, not the full automatic, process. It is a far larger building, but the output is the same. Here the men do much of the work on the frames themselves. When operated at capacity, two thousand men are employed. I asked the President of the Company how many men it would take to manufacture ten thousand body frames a day by the still older machine process before conveyor belts and standard parts were introduced. At least twenty thousand, he said. And here we have the threat of technological unemployment quite vividly. Twenty thousand men using hand machines give way to two thousand men using semi-automatic methods, who give way to 200 men on the fully automatic machines. And all for an identical output."

Innumerable instances all around us testify that the application of science to industry results in the continual displacement of manual energy by the labour of power machines. It is an everyday experience. The most up-to-date factory is that in which fewest men are employed in proportion to the output.

"More and more the position of labour, using, of course, this word in its widest possible sense, tends to become the catalyst in an operation impossible without its presence, but carried on with a decreasing direct contribution from labour itself.*"

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The figures contained in Mr. Ferguson's article would seem to disprove in advance the suggestion that if only monetary demand was stimulated up to the level of productive capacity, there would be no unemployment. The shortage of purchasing-power inherent in our present

* C. H. Douglas, in "*The Monopoly of Credit*," at page 80.

economic system, whether by design or accident, and the consequent limitation of the demand for goods that can be supplied, is certainly one tremendous fact to be taken into consideration. It leads to stagnation of industry, low actual standards of living compared with high possible standards, and an artificial addition to the number of our unemployed. But even if our monetary demand were raised until it equalled our real desire for goods, there is little doubt that, with the accelerated application of power to standardised industrial processes, there would still be a very great number of persons upon whose labour industry could make no useful demand.

To insist that the replacement of human energy by machine power creates unemployment might seem a work of supererogation were it not that the contrary is so frequently argued, with tabulated figures purporting to show how employment has grown as a result of the introduction of machinery. No one, of course, disputes that. So has population. It is also, of course, quite true that after the introduction of power machinery, displaced workers were for many years able to find new employment in the production of still more labour-displacing appliances. There was of necessity an interval before they could obtain new employment, involving no doubt many cases of considerable hardship and privation, but in the early years of the new era there was, in Great Britain in particular, a wide demand for labour to create the wonderful new machines. British machinery and British goods were eagerly bought all over the world. It was very largely a question of cheapness. However low the wages paid for handwork, goods produced by machinery could almost invariably be sold at a lower price. They could also frequently compete in quality and almost always in uniformity. Yet, even in factories equipped with what was then the most modern

machinery, the quest for cheapness led to the employment of women and little children for hours and in circumstances which to-day are regarded as inhuman and nauseating.

In "*Monarchy or Money-Power*," Dr. McNair Wilson quotes Robert Dale Owen, who shortly after Waterloo made a tour of this country, and wrote as follows :


"We visited all the chief factories in Great Britain. The facts we collected seemed to be terrible almost beyond belief. Not in exceptional cases, but as a rule we found children of ten years old worked regularly 14 hours a day, with half an hour's interval for the midday meal, which was eaten in the factory. In the fine-yarn cotton mills they were subjected to this labour in a temperature usually exceeding 75 degrees, and in all the cotton factories they breathed an atmosphere more or less injurious to the lungs, because of the dust and the minute cotton fibres that pervaded it. In some cases we found that greed of gain had impelled the mill owners to still greater extremities of inhumanity, utterly disgraceful, indeed, to a civilised nation. Their mills were run fifteen and in exceptional cases sixteen hours a day, with a single set of hands ; and they did not scruple to employ children of both sexes from the age of eight. We actually found a considerable number under that age. It need not be said that such a system could not be maintained without corporal punishment. Most of the overseers openly carried stout leather thongs and we frequently saw even the youngest children severely beaten . . . In some large factories from one-fourth to one-fifth of the children were either crippled or otherwise deformed, or permanently injured by excessive toil, sometimes by brutal abuse. The younger children seldom held out more than three or four years without serious illness, often ending in death.*"

* See also Appendix D.

The introduction of factory legislation and the regulation of hours and conditions of labour counteracted to a large extent the natural increase in adult male unemployment consequent on the introduction and increasing use of the power-machine. But at the same time the privileged position of Great Britain as the pioneer in the industrial field was gradually coming to an end. In 1851 the Great Exhibition at the Crystal Palace attracted curious and cute business men from all the ends of the earth. The hope was that they would buy Britain's finished products. This they did, but they also bought British machinery, and with that machinery began to compete with Great Britain in the manufacture of finished products. In our anxiety to export, we sent abroad the wherewithal to make the goods which are to-day competing with our own industries in the markets of the world. And, as we saw in Section 37, we still do the same.

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A point to notice is that the replacement of men by machinery is a progressively cumulative process. Men displaced by machines from making finished goods might perhaps—and at first almost certainly did—find work in making more of the type of machines that had displaced them. It was more difficult, however, for a man displaced from making machines to find employment a second stage back, making machines to make machines. And with the increasing complexity of our modern industrial processes, the difficulty has increased in a kind of geometrical progression, so that by now it has become practically impossible for men displaced by machinery from making machines that make machines to find fresh employment making more machinery of the type that makes machines that make machines.



A very simple test will determine whether or not the introduction of any particular piece of machinery does or does not displace labour. A manufacturer will not, as a rule, instal a machine unless thereby he is going to save labour-costs or increase output. Now if the cost of the machine when added to the cost of running it during its effective working life is less than the wages of the men who would otherwise be required to produce the same amount of goods, we can safely conclude that the number of man-hours occupied in making the machine and operating it are less than the man-hours displaced by it. For suppose a machine has cost £1,000 to instal. Taking an average wage as low as 1/- per hour, the total amount of man-hours spent on the construction and installation of that machine will not have exceeded 20,000. If we now assume that such a machine has an effective working life of ten years, and that it costs £50 a year in running expenses (representing 1,000 man-hours per annum), we find that there is a net "cost" equivalent to that of not more than 30,000 man-hours over the ten years. If, during the same period the machine displaces two men working 48 hours per week for fifty weeks in the year, we find a net displacement of 48,000 man-hours over the same period. If there was not some such saving or corresponding advantage, no manufacturer would instal additional machinery.

We know that, in face of competition, manufacturers often find it essential to reduce their costs per unit of output. Wage reduction may be neither possible nor sufficiently effective. So they instal new machinery, replacing "hands" while enabling a greater quantity of goods to be produced. The effect of this action will be felt by other manufacturers who will be compelled to protect themselves by installing similar or even more

up-to-date machinery, until finally the whole industry is better equipped for production with no greater market. Probably the market will be smaller, for the replacement of men by machinery will have lessened the income of possible customers. Overhead charges will be proportionately heavier, and the individual manufacturer will find that his only alternative to bankruptcy is to modernise his plant still further in order to gain a temporary advantage over his competitors.

We have already noted the remarkable case of the A. O. Smith Corporation of Milwaukee, instanced by Mr. Stuart Chase. It may not be without value to take a few more examples of the displacement of men by machinery, selecting them almost haphazard from the many instances available.

In an article published in the "*Star*" on the 14th January, 1932, Mr. C. R. F. Englebach, of the Austin Motor Company Limited, was quoted as having stated that the number of employees per week per car at his factory fell from 55 in 1922 to 24 in 1923, 20 in 1924, 17 in 1925, 12 in 1926 and 10 in 1927, and that this figure had since then been considerably reduced.

"In 1923 the Class 1 Railroad of the United States transported goods 43,000,000,000 ton-miles with 1,800,000 employees. Under the old transport conditions this volume of goods would have required 70,000,000 drivers and 140,000,000 horses.*"

The increasing utilisation of water power—displacing coal and lessening the call for the services of coal miners and transport workers—is illustrated by the big schemes carried out in Austria in 1924 and the following year. The big Hydraulic Power Station, opened on the 30th October, 1924, at Partenstein in Upper Austria, increased the supply

* J. H. Barnes, in "*The Nation's Business*."

of electrical energy to an extent representing an annual saving of 1,200,000 tons of coal. The lower Austrian Waterworks at Opponitz in the Ybbs Valley were designed with a capacity sufficient to render Vienna quite independent of coal.

These instances are typical of large numbers that could be quoted. Sufficient has been said, however, to illustrate our point.

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Besides the causes of unemployment which we have so far considered, there are several contributory causes amongst which we should perhaps first mention the "rationalisation" of industry. In an age of intensive struggle for shrinking markets, there is, as we have already emphasised, a continual urge upon producers to cut down their costs of production to the lowest possible amount. In this way they are enabled, at any rate temporarily, to capture a somewhat larger share of the market and possibly to secure for themselves a temporary prosperity at the expense of their trade rivals. This occurs to an especially large extent among those who manufacture for foreign markets, for they are not only competing with their rivals at home but also with the manufacturers of the whole world. It is not, therefore, a matter of wonder that, particularly in the engineering industry, reorganisation has proceeded fairly rapidly since the War, resulting in economies in labour and an increase in productive capacity in general. In its more acute form it is found as Rationalisation.

It is sometimes contended that rationalisation does not create unemployment as, owing to the lower costs which it renders possible, more goods are sold and therefore more persons have to be employed to make them. Theoretically

this is a possible result in the case of any one particular rationalised group, but its success in capturing markets will undoubtedly increase heavily the unemployment problem of competitors so that, on a wide view, it merely intensifies the problem.

As we have seen, the only practicable means of ensuring a satisfactory volume of employment under the present system is to secure and maintain a sufficient flow of exports, and accordingly we are authoritatively recommended to

“preserve and extend our means of access to overseas markets and so maintain and increase our efficiency as to produce our exports at the minimum real cost, having regard to quality and suitability for their markets.”*

In other words, we do not export to live, but to create work in order to enable us to earn a living.

And where does this lead us? As Douglas remarked in November, 1924 :

“At this moment the world in general and Europe in particular is undoubtedly settling down to a policy of intensive production for export, which must quite inevitably result in a world cataclysm, urged thereto by what is known as the unemployment problem.”

A more recent remark, attributed to Dr. Schacht of the German Reichsbank†, emphasises another aspect of the same problem. “*There is,*” said he, “*no re-employment except by re-armament,*” and within the present financial system he is right. Thus we find re-armament increasingly advocated and finally adopted as a national policy by every industrial country. But there is a limit beyond which

* Balfour Committee on Trade and Industry.

† Quoted in “*The Yorkshire Post,*” 29th October, 1935.

re-armament cannot go unless the arms are used. Italy has apparently reached that point, and the Abyssinian and Spanish adventures are the price she is paying for the privilege of work.

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The number of the registered unemployed in Great Britain fluctuated during the period 1922 to 1929 between 1,059,000 and 2,015,000, with an average figure of 1,345,000. In 1930 a great change occurred in British Unemployment statistics, probably a secondary effect of the world situation, which, by curtailing our export trade, abruptly threw many of our chief industries into depression. In January 1933 the peak figure of 2,955,448 was reached, and since 1930 the average number of the registered unemployed has been almost a million greater than the average obtaining in the eight years immediately preceding, in spite of the recent reduction in the unemployment figures due to the re-armament programme.

It has been estimated that in the years preceding the Great War, the number of the unemployed was in the region of 500,000. It will be seen therefore that the number of the unemployed in the post-war years before 1930 showed an increase of almost a million, and that since 1930 the number has again shown an increase of almost a million. There are some who, ascribing 40% of existing unemployment to the world depression, claim that with the solution of prevailing world problems, this percentage of our unemployed will be reabsorbed into industry. A consideration of the Table given in Section 39 does not give much ground for this optimistic attitude—optimistic, that is, from the point of view of those who regard the provision of work as the solution of the unemployment problem. It was in 1930 that the income of investors

in this country from their foreign holdings first showed a serious decline : it was in that year that the earnings of British shippers fell from £130,000,000 to £105,000,000 per annum as a prelude to still greater reductions in the following years. It was in 1930, therefore, that the countries other than Great Britain were first unable to earn or borrow from her the wherewithal to purchase her goods and services and to pay their interest to her. But even granting the optimist's viewpoint for the sake of argument, it still leaves about 1½ millions of unemployed whose condition cannot be ascribed to "world causes"—a permanent labour surplus which will vary in number from year to year, with a steady long-term tendency to increase.

It is to be noted that the increase in unemployment is not necessarily related to any corresponding decrease in employment, for (in spite of financial restrictions) increase in population and slightly higher standards of living are calling for a greater output of goods. The position may perhaps be illustrated by the distinction in mathematics between what is termed an *arithmetical* progression and what is known as a *geometrical* progression. Rising population and better standards of living would normally call for a continually increasing amount of employment did not the introduction of power machines increase even more rapidly the efficiency of those employed. Perhaps for a little time the increased demand and the increased efficiency may result in a relative stabilisation of the number employed, but "*the positive acceleration of science,*" to which Sir Gowland Hopkins referred in his presidential address to the British Association in 1933, will before very long, even if it has not already done so, not only prevent any reduction in the number of unemployed but also lead to a positive decrease in the number of those for whom industry is still able to find jobs.

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It may, perhaps, emphasise the growing importance of this problem if we realise what changes have occurred in the general attitude towards the unemployed. In the earliest stages of the power age they were regarded as idle rogues, unemployed only because they would not work for the wages offered them by the local captains of industry. Later on they came to be regarded as unfortunates, whose plight, however, was probably their own fault : the better workmen could always get jobs, and those out of work were obviously unemployable. By 1911, however, unemployment was regarded as an accidental misfortune against which one might insure, as against fire, flood or burglary, By the Unemployment Act of that year contributions were paid by employers, workmen and the State to a fund out of which unemployed contributors were to receive so many weeks' assistance while they found new jobs. But this "covenanted benefit" was limited in amount and duration. It was, quite definitely, insurance on an actuarial basis, and unemployment was regarded as an insurable calamity.

If every house caught fire once a year, fire insurance would break down. So, in spite of efforts to operate the Unemployment Insurance Acts on an actuarial basis, the fund became hopelessly inadequate to deal with the relief of the unemployed, and by 1934 it was realised that unemployment was something more than an insurable calamity. The Unemployment Act, 1934, set up a new scheme of unemployment assistance. A central body, the Unemployment Assistance Board, has been constituted to provide allowances and occasionally training for all able-bodied unemployed persons between the ages of 16 and 65, whose normal occupations are covered by the Insurance Acts, and who are not entitled, or no longer entitled, to "covenanted benefit." Such persons include,

therefore, all those whose period of benefit has expired, and also many of those who would otherwise have had to seek poor relief on account of unemployment.

It is, in effect, an attempt to keep the unemployment insurance scheme on an actuarial basis, while providing assistance for persons with no insurance benefit, or whose benefit is insufficient. But there is a distinction, in that insurance benefit is given as of right to those who satisfy the statutory conditions, and its amount is determined by statute. The allowances made by the U.A.B., however, are calculated in accordance with somewhat complicated scales which take into account both the "needs" of the applicant and his dependents and his and their resources. The applicant is subjected, as it were, to a "needs test" and a "means test." A further distinction is that the Board's allowances are paid out of national funds*.

The amount of the Board's allowances† and the principles on which they are determined (household responsibility coupled with a means test) may be matters of acute controversy, but it is now definitely admitted, by implication if not by word, first, that unemployment is a matter of concern to the State and not merely to the particular locality or individual, and secondly, that it is no longer a fortuitous calamity which can be insured against, but a definite condition affecting an increasing number of citizens, some permanently and some temporarily.

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An important feature is the change in the nature of employment. When the power-machine first came to

* For further information, the reader is referred to Dr. W. Ivor Jennings's book on "*The Poor Law Code*" (Second Ed. 1936).

† See Section 8, *supra*.

man's aid, it took from off his shoulders the burden of physical routine work. It gave him a tremendous inanimate power which he had to guide and control. To an increasing extent his work became that of directing the labour of the machines. There was thus a change in the nature of his occupation. More and more men ceased to be engines and became tenders.

But a further change is now taking place. In a number of instances it has been found possible to devise machines which will do the watching and tending. The idea of the robot-man has been extended. One well-known example is the mechanical man devised by the Westinghouse Company in America, which has been employed to watch the water level in the reservoirs supplying New York City. A ring on the telephone to one of these robots, pitched in a certain key, will elicit a response indicating the height of the water level in the reservoir. The selenium electric cell—a device whereby the interruption of an invisible ray sets certain apparatus in motion—has been used for a number of things, including a burglar alarm at an exhibition of valuable jewellery and antiques, opening doors for busy waitresses, and detecting cans which have not been properly labelled. An even more familiar instance of a machine regulating human conduct rather than human beings tending machines is to be found at nearly every important cross road. From what may be called the common-sense point of view the obtaining of the maximum result with the minimum of human effort is, generally speaking, good, but unfortunately under present circumstances, the observed result is to diminish the spending-power available to liquidate the costs of industry.

Although this age of power is also an age of power-machines, there is no need to fear that an age of robotism, with its terrible consequences for individual initiative,

is upon us. More and more machines are employed, but more and more they are employed on the routine and monotonous tasks of industry, tasks in which individual initiative counts for very little. Sir F. Gowland Hopkins in the speech to which we have already referred, said :

“ I confess that if civilisation escapes its other perils, I should fear little the final reign of the machine. We should not altogether forget the difference in use which can be made of real and ample leisure compared with that possible for the very brief leisure associated with fatigue ; nor the difference between compulsory toil and spontaneous work. We have to picture, moreover, the reactions of a community which, save for a minority, has shown itself during recent years to be educable. I do not think it fanciful to believe that our highly efficient National Broadcasting Service, with the increased opportunities which the coming of short wave length transmission may provide might well take charge of the systematic education of adolescence after the personal influence of the school-master has prepared them to profit by it. It would not be a technical education, but an education for leisure.”

A pleasing though fanciful picture of that leisured future has been drawn by the American humorous writer, Don Marquis, in Chapter V of his book “*The Almost Perfect State*,” in which he writes :—

“ And what will the inhabitants of the world do with all the leisure that will be theirs through a simplification of humanity’s economic, industrial and political problems ?

*PROPHECY,
WHAT THEY PLEASE.*

“ They will tell stories and listen to stories ; they will run foot races with one another ; they will write plays and act them, and no one will get rich from it ; they will go swimming and drink enough to be happy

without becoming sots ; they will go fishing oftener ; they will speculate on man's destiny and cultivate their religious nature and go to chicken fights and ball games, and discover new gods and sit in the shade and smoke ; they will eat excellent foods without becoming gluttons, and make love without becoming jealous ; they will invent new arts and new games and new duties, and everyone will live 500 years and be glad of it, and never have the toothache ; they will pitch horseshoes and write poems and build beautiful buildings, and recite limericks to one another.

“ And in winter time the kindly-eyed and reverend old men will sit in front of open fireplaces, with their feet in buckets of hot water, and drink bourbon whiskey, with hoarhound candy in it, and think and think and think ; and in the summer time they will sit on the front porches, with gin fizzes beside them and speculate and speculate and speculate.

“ There will be plenty of useful and noble and pleasant things to do, and plenty of time to do them in, and everybody will do them . . .

“ Don't be such an ass as to be sure all this will arrive to-morrow. Don't be such an ass as to be sure it will never arrive.

Chapter VII

GOLD, THE GOLD STANDARD AND FOREIGN EXCHANGES

The Gold Basis—Bills of Exchange—Foreign Exchanges
—The Purchasing-Power Parity Theory—The Gold
Standard—Its Effects on Industry—The Inherent Vener-
ation of Gold—The Acceptability and Value of Money.

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In few, if any, of the many aspects of political economy, is there to be found such emphasis of opinion based on so slight an appreciation of the underlying essentials as in connection with the gold standard and foreign exchanges. Almost everybody has definite views on the advisability or otherwise of a return to the gold standard, though few have more than the faintest idea as to what is implied thereby. And it is often those who are most nebulous in their conceptions who are most emphatic in their opinions.

To understand what is meant by the gold standard it is necessary to understand first what is meant by a gold basis for a money system. Money to one's credit at a bank is, as we have seen, nothing more than promises on the part of the banker to pay out legal tender upon demand. The certainty that those promises will be fulfilled gives stability to the whole financial structure, and failure to honour those promises would lead to consequences which nobody desires to contemplate. In pre-war days legal tender consisted (with comparatively trivial exceptions) of either gold or Bank of England notes, and the Bank of England was itself bound by law to give gold in exchange for its own notes if demanded. Bank of England

notes were, in point of fact, promises on the part of the Bank to pay gold on demand. So it was possible for any person who really desired to do so, to obtain gold in exchange for his money.

Our money system was, therefore, said to be on a gold basis, because by the law of the land all the non-gold money circulating within the country could be exchanged either directly or indirectly for gold. But nowadays the phrase has a looser meaning, and any country in which the upper limit of the money supply depends on the amount of gold in the vaults of its Central Bank is now said to be on a gold basis, whether or not its nationals can actually obtain gold for their money. In this country, for instance, the amount of Bank of England notes (which form by far the greater part of our legal tender) exceeds by a legally fixed amount the quantity of gold in the Bank's vaults. An increase in the quantity of gold held by the Banks leads automatically to an increase in the quantity of Bank notes, and similarly a decrease in the gold so held entails a decrease in the number of such notes. And as the Banks are careful to observe a definite, if conventional, ratio of liabilities to "cash," it follows that the upper limit of our money supply is determined by the gold supply. So the money system of our country is said to operate "on a gold basis."

Nowadays, therefore, it does not follow, because a money system is "based on gold," that gold coinage must be in circulation. Nor is there necessarily an absence of restrictions designed to discourage the holding of gold by the general public. Strictly, all that the phrase means is that the volume of legal tender has a maximum limit varying with the gold reserve of the Central Bank. A few countries, such as Great Britain, have a fixed "fiduciary issue" in excess of the gold held by its Central Bank.

Other countries fix the maximum volume of their legal tender at a certain multiple of the gold so held. In either case the withdrawal of gold to any serious extent necessitates the restriction of the currency circulation, while an influx of gold permits an expansion, so that the monetary systems concerned are all said to operate on a gold basis. This is not the same thing as stating that a country operates on the gold *standard*, a distinction which will become clear shortly.

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The money unit of any of the principal countries of the world is almost sure to be legally defined as the equivalent of a certain weight of gold of a certain fineness. For instance, by the Bank Charter Act of 1844 the pound sterling was defined as a coin containing 123.27447 grains of gold (11/12ths fine). Similarly the American dollar is defined by its gold content, and so also the German mark and the French franc. Accordingly, although the various units of currency differ in the amount of gold they contain and also in the fineness of that gold, it is possible to reduce these various currencies to a common denominator by reference to gold of any selected fineness and then to state that the pound sterling is, in gold content, equivalent to 20.43 marks or to 124.21 francs. These figures indicate what is called "the parity of exchange."

This brings us to a consideration of foreign exchanges, a subject which in the public imagination is shrouded in almost impenetrable mystery. To the man in the street there is something unaccountable about the whole business—something unfathomable and, in fact, rather intriguing. It is a subject which he is almost proud to admit "beats him." It is also a very easy matter to declare that this or that cannot be done "because of the

effect on the foreign exchange." It sounds final and saves the bother of serious thinking.

Really, however, the matter is essentially simple. There is no international money-unit, but the lack of it has led to the growth of a system whereby the different national money-units can be readily exchanged. The machinery of "foreign exchanges" is operated by banking houses that make a speciality of this type of business. The mechanism itself consists chiefly of documents known as "bills of exchange." Such Bills are credited with a very ancient origin : they were certainly in use among the trading cities of the Mediterranean in the 13th century. and were thence brought to England by way of the Low Countries.

A Bill of Exchange is defined by the Bills of Exchange Act, 1882, as "an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer." Bills of Exchange are known either as Inland Bills or Foreign Bills. An Inland Bill is a bill both drawn and payable within the British Isles, or one which is drawn within the British Isles upon some person resident therein. All others are known as Foreign Bills.

As Foreign Bills are, of course, the instruments used in overseas transactions, we will confine our attention to them. There is no precise legal form necessary for a bill of exchange, although all the requirements of the statutory definition must be punctiliously fulfilled. But commercial practice has set reasonable and fairly definite bounds to the variety of forms of bill employed. In Appendix E are a few examples of the simpler forms taken from a num-

ber given by Mr. Evelyn Thomas in his book, "*The Principles and Arithmetic of Foreign Exchange.*"

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The necessary parties to every Bill of Exchange are (1) the party giving the order, who must sign it, and who is called *the drawer*; (2) the party to whom the order is given, who is called *the drawee*, and who, on expressing his assent to the order by signing it on the back (endorsing it) is called *the acceptor*, and (3) the party to whom the money is to be paid who is called *the payee*. But it must be noted that the drawer may also be the payee (as with cheques made payable to the drawer) and the drawee may also be the payee (as with cheques drawn in favour of the bank itself).

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Having now some idea of the principal instrument of payment between citizens of different countries, let us see how things work out in practice, and how these affect the "rates of exchange."

"When a merchant in one country exports goods to a merchant in another, the debt arising from the transaction can be settled in one of two chief ways, viz., as follows :—

- (a) The *Debtor* may be left to buy a bill drawn upon some one in the creditor's country and remit it to the creditor, leaving the latter to present the bill to, and obtain payment from the drawee; or
- (b) The *Creditor* may himself draw a bill of exchange on his foreign debtor, and sell the bill to a local banker or broker. In due course the bill will be presented to, and paid by, the foreign debtor.

"Both transactions have the same effect; the creditor receiving and the debtor paying the amount owing, and in both cases the bill of exchange by which

the settlement is effected may pass through several hands before it is finally discharged.

"In the case of Great Britain, the bills drawn by London are vastly outnumbered by the bills drawn on London. Not only is our own foreign trade in the greater part settled by bills drawn on London, but much of the foreign trade of other countries is financed in the same way.*"

Suppose Johann Kaufmann in Germany wishes to pay John Merchant in London the equivalent of £100. He would obtain through his own bankers a draft on some London Accepting House. The bill would instruct the Accepting House to pay to or to the order of Merchant the sum of £100 on demand, or more probably three months after presentation and acceptance. (See Form 2 in Appendix "E"). This bill would be signed by the German banker who would already have received payment from Kaufmann. Kaufmann would post it to Merchant, and the latter would no doubt present it at the Accepting House in London and, after acceptance, would sell it, probably through his own bankers, thus receiving immediate payment.

And suppose that Wilhelm Schmidt in Germany is owed the equivalent of £100 by William Smith in England. Schmidt would draw a bill on Smith, and sell it to a local Exchange Bank. This bank would post it, along with many others, to its London correspondent, who would present it to the drawee for acceptance, and when acceptance had been duly notified by endorsement, would normally discount it with a London broker or banker.

In the instances given, the German exchange bank not only buys bills from German exporters: it also sells drafts on London to the importers, receiving local money

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* S. E. Thomas in *"The Principles and Arithmetic of Foreign Exchange."* at pages 10 and 11.

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from them and being thereby enabled to pay the local exporters for the bills of exchange they offer it. At the same time the money received by the bank's London correspondent on rediscounting the bills enables the bank's London agents to honour the drafts arriving from Germany.

There are, of course, a great number of persons in every country wishing either to "remit money" to persons in other countries, or to receive payment from persons in other countries. The buying and selling of bills of exchange has thus become a regular trade. In every commercially organised country there is always a supply of bills "on the market," being bought or sold like any other commodity.

In this way the conversion from one currency to another is usually effected in the foreign country by the local exchange banks to whom sterling bills are sold by some of their customers, and by whom other customers are provided with drafts payable in London in sterling.

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The prices paid for bills of exchange are naturally influenced by the relative demand for them. Suppose, for instance, that there is more money due from Germans to Englishmen than *vice versa*. There will be a bigger demand on the part of Germans for drafts on London than supply of bills, drawn by Germans on London and offered for sale. The price of English bills will tend to rise. In consequence there will be what is known as a fall in the mark in terms of sterling.

When countries are "on the gold standard" there is a definite and somewhat narrow limit of variation in the exchange values of their currencies. This limit and the reason for it, we shall consider later. For the moment we

must ask ourselves what it is that ultimately determines the relative values of different national currencies, whether or not the countries concerned are anchored to gold. The simplest answer, and one of sufficient if not absolute accuracy—for no one answer can be absolutely inclusive—is supplied by the purchasing-power-parity theory of exchanges. According to this theory the relative values of national currencies are determined in the long run by their relative purchasing-powers in terms of goods and services. If prices in England, for instance, fall in comparison with prices in America, there will tend to be a relatively larger demand for English than American goods, and consequently an increased demand for pounds relative to dollars. The value of the pound in terms of dollars rises, until the advantage of obtaining more goods for the pound is counterbalanced by the higher price of the pound itself in terms of dollars.

G. D. H. Cole, in *“What Everybody Wants to Know About Money”* (pp. 58 and 59) criticises this theory as possessing an element of truth but being

“by no means easy to apply in practice. For, in the first place, all prices do not exert the same influence upon the movement of the foreign exchanges. If a commodity is of such a nature that it cannot be exported, but can be sold only in the home market, a divergence between its price in one country and its price in another will not necessarily influence the relative values of the national currencies concerned. The fact, for instance, that house rents may be higher in Great Britain than in France may be practically without influence on the relative values of the pound sterling and the franc. The purchasing-power parity theory, to the extent to which it works at all, works mainly in the terms of the prices . . . of such commodities as enter freely into international exchange. Such goods as wheat, raw cotton, coal and other

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raw materials and foodstuffs which are largely imported and exported and have something approaching a world price, have far more influence upon the level of exchanges than commodities which enter less or not at all into international trade.

"Moreover, the level of exchanges between countries is determined not only by the movement of the money required to finance current transactions between them, but also, and especially in time of abnormal activity or depression, by the movement of capital. The relative values of different national currencies depend on the higgling of the market between those who want to buy and those who want to sell the currencies in question. But the desire to buy or sell francs or dollars may be based either on the need for getting foreign money in order to pay for current supplies of goods and services, or on the desire to move capital resources from one country to another. To whatever motive the demand for a particular currency is due, it will have exactly the same influence on the price at which that currency can be procured in terms of other currencies. . .

"The purchasing-power-parity theory of money is true up to a point, but there is need for the greatest care and caution in interpreting it and in drawing conclusions from it concerning current fluctuations in the international value of the various national forms of money."

Before Mr. Cole's criticism can be accepted at its face value, it is well to observe that, generally speaking, international capital movements reflect the ultimate balance of trading accounts. If the value of the exports from a country (including invisible as well as visible items) exceeds by, say, a hundred million pounds the value of the goods and services imported from other countries, the excess can only be paid for if the financiers of the exporting country balance it by "lending" to the financiers or governments of the other countries an equivalent sum. This

aspect of international trade has already been discussed (Chapter V). The greater part of foreign investments are of this nature. Such capital "movements" are not always transfers to adjust an existing disparity on trading account, but sometimes made in anticipation of exports. Further, we have seen, they are usually payments by investors to exporters within the same country, and so have little influence on the exchanges.

There is, of course, the phenomenon known as a "flight from the pound," or from the franc. In such a case financiers, anticipating a loss in the value of the pound or the franc, try to exchange pounds or francs for, say, marks or dollars in which, for some reason, they have greater faith. Here, although there is a decided effect on the exchanges, it is induced by an anticipated depreciation of the value of the currency-unit on the home market.

So we find that, after all, there is a good deal more to be said for the purchasing-power-parity theory of exchanges than Mr. Cole is prepared to admit. It is good, workable theory, and conforms very generally to actual experience.

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Let us for a moment leave the subject of foreign exchanges to consider more in detail the question of the gold standard. In many countries whose money system is operated on a gold basis the central banking institution is by law obliged to purchase all gold offered to it at a definite figure, and to sell gold on demand at a slightly higher figure. This has the effect of anchoring the value of the currency unit to gold. If the value of the unit tends to decrease relatively to gold, gold is demanded from the Central Bank in exchange for currency, and the loss of gold by the Central Bank results in a contraction of

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the currency and, theoretically, a rise in the value of each unit. Similarly, when the value of the unit of currency increases beyond a certain point, people find it profitable to offer gold to the Central Bank in purchase of currency. A currency so anchored to gold is described as being "on the gold standard."

If the money systems of two countries conform to the requirements of the gold standard, which include the unrestricted import and export of gold, the rates of exchange between the currencies of those two countries will reflect very closely their values as calculated by reference to their gold content. For instance, if in the days before the War the purchasing-power of the pound sterling fell relatively to that of the dollar, it was theoretically feasible to obtain for each pound a definite amount of gold, ship the gold so obtained to America, and with it buy a certain number of dollars, whose combined purchasing-power would be greater. This would produce a two-fold result. On the one hand, less gold at home would mean a smaller total volume of money and consequently a tendency towards lower prices, or in other words an increase in the purchasing-power of the pound. On the other hand, an influx of gold onto the American money market would allow an expansion of the total volume of their money, probably leading to a rise in the general level of prices, or (what is the same thing) 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, ensuring a stable rate of exchange.

What should be particularly observed about the foregoing is that although it was the movement or threatened movement of gold which maintained the stability of the exchange, it was actually the purchasing-power of the

pound sterling in its home market compared with the purchasing-power of the dollar in its home market which (with the other factors mentioned by Mr. Cole) regulated the flow of gold and through it the rates of exchange. A fall in the purchasing-power of the pound on the home market normally led to a withdrawal of the gold from the country concerned towards countries whose currency could be purchased with such gold to yield a greater return.

Consequently we find that whether or not the gold standard is in operation, the same influences really determine the rates of foreign exchange. But the gold standard is in effect a mechanism which tends to increase or decrease the national money supplies in such a way that price-levels on the various home-markets are kept more or less stable in relation to each other and, consequently, the rates of exchange are effectively anchored round about gold parity. They deviate one way or the other by the amount of the freightage and insurance costs of transporting gold, and also by the difference in the prices at which the Central Banks will sell or buy gold. In the case of the Bank of England the difference was $1\frac{1}{2}$ d per ounce when the gold standard was in operation, the buying price being £3 17s 9d per ounce and the selling price £3 17s $10\frac{1}{2}$ d.

The Macmillan Committee, in paragraph 39 of their Report, state definitely that

“the primary object of the international gold standard is to maintain the parity of foreign exchanges within narrow limits.”

No doubt, stability of the foreign exchanges is worth a considerable sacrifice to achieve, but those who recollect the drastic termination of the relative prosperity of the post-war years when, in March, 1920, steps were first taken towards the reimposition of the gold standard, will wonder

whether there is not a limit to the sacrifice that can fairly be demanded.

In paragraph 41 of its Report the Macmillan Committee add that

“it may be considered the secondary object of the international gold standard to preserve a reasonable stability of international prices.”

The foreign exchange rates reflect the national price levels. If then, by means of the gold standard mechanism national currencies exchange within narrow limits, it follows that national price levels are also maintained relatively static, and it further follows (Macmillan Report, Paragraph 220) that

“the maintenance of stable exchanges has the effect of transmitting to our credit system any serious disturbances, of a cyclical character or otherwise which may be affecting the rest of the world.”

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“There are obviously great advantages in this fixing within narrow limits of the rates of exchange between different national moneys, for it enables business men to make contracts and incur debts across national frontiers without worrying themselves about possible changes in relative values of the national money concerned. A man can make a contract under such conditions in pounds or dollars almost indifferently, for he knows in terms of his own currency how much he will have to pay or be paid.

“On the other hand, when the world is off the gold standard there is no fixed relation between the values of different national currencies, and an element of great uncertainty is introduced into all contracts of an international kind, for no one knows when he contracts to receive or buy in foreign money in the future how much of his own money he will actually get or have to pay out. This uncertainty hampers

both trade and the overseas lending of capital, and the world suffered great inconvenience from it in the years immediately following the War. There is accordingly nothing surprising in the strong desire which was felt by influential sections of the community in all countries to get back to the Gold Standard. Nor is it surprising that this desire was felt most strongly by bankers and financiers, who are of all men most concerned with the exchange of money across national frontiers and the most likely to have their calculations upset by unforeseen changes in the relative value of different national moneys. For business men, the Gold Standard has had serious disadvantages as well as advantages, but to the Banker the advantages have been throughout by far the most obvious. It was the banking community above all that took the initiative in forcing the World back on the Gold Standard after the War.”*

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Without our necessarily agreeing with his assumption that a stable internal price level is the chief desideratum of monetary policy, the following argument (taken from the speech of Mr. McKenna made on the 29th January, 1932) is interesting and instructive as showing how our banking system has the power within fairly wide limits to carry out a selected money policy with or without adherence to gold.†

“ . . . The essential difference between a gold standard and a managed standard is a difference of objective. Their instruments are precisely the same, the bank rate and ‘open market operations,’ the second being a technical term for buying and selling bills of securities in the open market with the object of increasing or diminishing the quantity of money. These instruments have long been employed by the Bank of England, whose main objective hitherto, with the gold standard in operation, has

* G. D. H. Cole in “*The Intelligent Man's Guide Through World Chaos*,” at page 246.

† See, however, Sections 33 and 34, *supra*.

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necessarily been the maintenance of exchange stability, whereas with a managed standard the objective would be the stability of the internal price level.

"It is well recognised that the Bank of England, through the two instruments I have mentioned, has a high degree of control over the volume of credit and the rates currently charged for its use. Indeed, its control over the quantity of credit, and consequently of money, is as nearly absolute as anything can be in economic life, while the power of the bank rate has been demonstrated on innumerable occasions ever since credit became an important element in our commercial system. With the aid of these controls it should not be an impossible task to maintain stability of the price level . . . "

"Following almost immediately upon our going off the gold standard the British wholesale price level rose about 8% and since then has remained practically stationary ; it is still slightly lower than a year ago, and nearly 20% below the figure for January, 1930. Our cost of living index, if we allow for seasonal changes, has scarcely moved. It is below the figure for January, 1931, and more than 10% lower than a year earlier. You will observe that there has been no inflation, and the supposed miracle of maintaining a currency stable with purchasing-power without any metallic standard has been accomplished.

"There is, then, no reason to regard the management of monetary conditions as an altogether novel departure, nor to see in it the grave dangers which might arise from lack of experience. It is equally true, I think, that public anxiety about exchange fluctuation is unnecessarily exaggerated. If the pound retains a constant value measured in commodities, a rise or fall in foreign gold exchanges, temporary fluctuations apart, will only mark the degree in which gold has appreciated or depreciated : in other words the degree in which the gold standard has failed of its proper purpose in securing a stable value of money."

In another part of the same speech Mr. McKenna sums up the argument for and against the gold standard.

"If the gold standard cannot work without depressing and even ruining trade, the proper course must be to seek another and better one. I am afraid, however, that the financial authorities of the world, with their deep-rooted traditions and long established practice, will not be easily moved to consider the question on its merits. There is still a profound conviction that the gold standard is the firmest basis for sound money, the surest protection against inflation, the best safeguard from political interference with national currencies by needy governments.

"If the operation of the gold standard were properly controlled, this conviction might be well founded, but as matters stand there is little or no justification for it. The claim that it provides protection against inflation is demonstrably false, for in less than twenty years before the War the world price level rose by roughly 40 per cent., a marked example of inflation even with the gold standard in full operation.

"Again, what protection does the gold standard afford against a needy government which can abandon it whenever it chooses? We have seen too many instances in recent years to have any delusions on this point. The gold standard may have a protective quality when the sky is clear and there are no financial storms, but in times of peril and stress the protection vanishes."

While agreeing with Mr. McKenna that the reliance placed on the gold standard is untenable and misplaced, we find it difficult to share his confidence in the possibilities of a managed currency to achieve a given financial policy, so long as the money is controlled by present day banking mechanism. We saw in Chapter IV some of the difficulties. But at least we can thank Mr. McKenna for his able demonstration that the idol of gold has feet of clay.

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It is a curious and probably also an important fact that belief in and reliance on gold is something intuitive and quite irrational. Prejudice, tradition, vested interest and long established practice are reinforced by something which is all the more powerful because it cannot be attacked and refuted—something which is in the nature of inherited instinct.

Although at the present day gold as a unit of currency has disappeared almost entirely—indeed a general agreement that gold coinage will never return into general use in this country seems about the only thing on which economists show anything approaching unanimity—the notion of money in the minds of the majority of people is still connected with gold in some way which they would find it extremely hard to define. The following explanation, for which the writer is indebted to Dr. Neil Montgomery, appears at first to be somewhat fanciful, and would no doubt be emphatically denied by most people as a reflection on their sanity. There is no doubt, however, that it contains a great element of truth, and that there is in most of us an inherited veneration of gold which no amount of sane thinking can exorcise completely.

Very probably the earliest form of money was the cowrie shell, and scholars who have studied mythology and the customs of primitive peoples give an explanation of why this was so. In the early days the part played by the father in the reproduction of children was not generally recognised. But even in the earliest times it was impossible not to recognise the part played by the mother. Therefore, anything similar in shape to the female form was regarded as a symbol of fertility and a charm to bring good fortune and prosperity. For this reason primitive

people regarded cowrie shells as particularly potent charms to be worn as necklaces or to be guarded as treasures. Cowrie shells thus obtained a magical, mystical importance, and people were glad to secure them, not from any intrinsic value which they possessed but because of the veneration in which they were held and the good luck they were supposed to bring to the possessor. As time went on there were no longer sufficient cowrie shells to meet the demand, and little figures of similar shape were prepared, to be, in their turn, venerated as charms and much sought after.

In course of time the part played by the father in procreation became recognised, and with it grew up the belief that every living thing originated in the mating of great Mother Earth and great Father Sun. The Sun was recognised as the universal source of energy; the great progenitor causing the Earth to yield her increase. And gold, the colour of the sun, found buried in the earth, was believed by primitive peoples to be in some way connected with this process. Indeed, in Egypt gold was known as "the seed of the Sun-God, Ra." So the metal gold received the veneration formerly granted to the cowrie shell with the added veneration due to the seed and symbol of the Sun. Men sought to possess it. It brought prosperity and power. It was universally acceptable. For the majority of primitive peoples it became money.

There is an increasing mass of evidence that the influence of primitive habits and beliefs still lies buried within the subconscious of the race. Knowingly or unknowingly men's actions and their outlook are affected by such habits and beliefs, however much they may be overlaid with the veneer of civilisation. So it is with the mystical veneration for gold, although economists have generally sought to explain its monetary position by attributing to it certain special qualities. A typical

explanation of the supremacy of gold, eminently reasonable from the point of view of a modern civilised man, looking at the matter from the 20th century, is that gold and silver

"are pre-eminent because of certain obvious qualities : they have always kept a high value in men's estimation as ornaments and their desirability and their mechanical properties make them very suitable for forming into coins. The quality, however, that has most contributed to their monetary importance is their facility for indefinite storage. They practically never wear out. The same may be said of iron and stone, but the latter materials, when used for a particular purpose, can hardly be recovered into general stock, ready to be used again for something else. Gold and silver can be stored so conveniently that the stock in existence is very large. Whereas in the case of corn or coal, or even iron, the stocks existing in a form available for carrying anywhere and turning to any use are less than one year's production, the stocks of gold kept ready in the vaults of banks and treasuries amount to 20 times as much as is turned out from the mines in a year : the same would probably be the case with silver if that metal had not gone out of fashion for monetary purposes. The consequence of this facility for storage is that the value of gold (and to a less degree of silver) fluctuates less from year to year than that of most things. The value of gold is regulated by the same principles of supply and demand as that of any other commodity, but the large stock in existence has the same steadying effect on its value as the reservoir of water has on the rate of flow of a stream."*

Such reasoning may be accepted as affording a partial explanation of the continued supremacy of gold throughout the ages. But it does not explain the early veneration of gold and its almost universal adoption for monetary pur-

* R. A. Lehfeldt, D.Sc., in "*Money*," at page 9.

poses. Nor does it explain why, after the intellect has rejected gold as an unsatisfactory basis for a modern monetary system, the feeling still persists that somehow it is essential.

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So far it is possible within the framework of the present system to pursue any money policy consistently, this (as we have seen) can be done as easily and effectively when off the Gold Standard as when on it, while frequently adherence to gold prevents the adoption of any money policy which is not in accordance with the policy of every other country of importance. The balance of convenience, therefore, demands freedom from gold limitations. But is it possible to dispense with gold as a basis (however remote) for our money system? And if so what, if anything, should take its place?

A clear distinction must be drawn between that which sets an upper limit to the amount of a nation's money and that which gives such money its value. We accept money in return for our work or our goods for several reasons, but there is only one of any importance. We may (if our aesthetic faculties are badly warped) desire pound notes for their intrinsic beauty. We may (if there is no other paper handy and we are careless of the consequences) use them for writing messages on. But the only reason why a normal, sane person accepts money is because with it he can command the goods and services he desires.

The foregoing explains the acceptability of money, but it does not explain its value. The value of money to the holder depends on the *extent* to which it will procure him what he desires, while the value of a nation's money in the aggregate depends on the ability and willingness (within the existing financial framework) of the com-

munity as a whole to deliver goods and services as, when and where people require them. Limitation of the number of such units does, of course, tend to preserve the value of each individually, although undue limitation tends, by curtailing the activities of industry, to lower the value of the money supply as a whole. After the acutely deflationary period 1920-1925, each unit of money had a greater purchasing power than in 1920 : but there were fewer units, and these were spent less freely, so that in the aggregate the purchasing power of the community was less. Limitation, then, does not give value.

In short, the acceptability of money depends on the belief of people in its power to procure what they require, and its value depends on the extent to which it does so. The reason why people accept our paper money is not because it can be exchanged for gold—for in the majority of cases it cannot—but because they know that with it they can procure something which they really want. It is only in exceptional cases that what they really want is gold.

When, therefore, a country is said to be "on gold" it really means that, though the value of its money depends on the power of the community to deliver the goods and services its people require as, when and where they require them, the number of the money units is limited in accordance with the amount of gold within the banking system of that country. As, then, this limitation by gold often produces results which are far from beneficial, it would seem merely a logical evolutionary step to dispense with it. In times of grave crisis the artificial requirements of the gold basis have frequently been disregarded, either by the banks who have issued more *promises* in proportion to legal tender than "sound finance" would warrant, or by the Government of the day who have issued paper

money as legal tender to function alongside of and supplement the gold.

Here then, we return to the question which faced us at the beginning of this Section. If gold is to be no longer the regulator of our money supplies, what must be put in its place ?

Chapter VIII

A LITTLE HISTORY AND A FEW DEFINITIONS

Twenty-five Years of Banking—Our Financial Dictator and his Policy—Prophesies of Prosperity—Beet Sugar, Wheat and Milk—Comments—Wealth and Credit, Real and Financial—The Trade Cycle.

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It must not be assumed that there have not been modifications and adaptations within the banking system itself—both with regard to structure and to policy—in an attempt to meet the changed needs of the times. *The Midland Bank Review* of June/July 1935, gave a survey of the progress in banking during the past twenty-five years from which the following is extracted :—

“Over the past twenty-five years comparatively little external evidence of change is revealed, apart from the disappearance of gold coin from circulation and the multiplication of banking offices, bearing fewer separate names . . . Yet within the system of currency and credit as it operates in this country the period has witnessed vital changes, not only in the machinery, but in the very philosophy of monetary operations.

“ . . . Gold coin is no longer available for circulation ; even when the post-war gold standard was operating there was no means of obtaining it in exchange for paper currency. . . In 1925 our currency was placed on a ‘gold bullion standard’ rather than on the pre-war type of gold standard, and there is now not the slightest probability of the re-appearance of gold coin in active circulation. The note circulation, moreover, has been simplified. In 1910 there was still in England and Wales a number of banks, other than the Bank of England, which issued notes in

quantities defined under Act of Parliament in 1844. Now, by the operation of that Act, all these issues have passed away, and English currency has attained the utmost simplicity : token paper, all from one source, for larger sums and token coin for smaller. The change has been accomplished without any loss of confidence whatsoever—no one is in the slightest degree worried by the fact that he no longer possesses the right to change his notes into gold coin, a quality which twenty-five years ago was regarded as an essential attribute of good paper money.

“ . . . Since 1910 the quantities outstanding of both currency and bank deposits have greatly increased. The figures cannot be accurately stated, but in rough approximation the amount of currency in circulation has been multiplied probably by well over two, and of bank balances by about three. . . Much more of the country's business is transacted by transfers of bank balances. In the financial year 1910-11 about 250 millions of cheques were used in England and Wales : in 1934-35, notwithstanding the doubling of the stamp duty on cheques, the total was well in excess of 400 millions, the increase amounting to roughly seventy per cent. The turnover on bank accounts cannot be measured for the earlier year, but a rough indication of its growth is given by the returns of the London Clearing House, which in 1934 dealt with a sum two-and-a-half times as large as in 1910. In short, more people are using the banks, and using them far more freely, than before. . .

“ . . . By 1910 the amalgamation movement had gone far, but there was room for it to go further. At the end of that year there were still about forty joint stock banks engaged wholly or mainly in domestic commercial banking in England and Wales, but since then the number has been reduced to roughly a dozen. . The structural consolidation of the banking system made possible the pursuit of a deliberate monetary policy. Put in another way, it made continuous and conscious monetary management a practical possibility. For one thing, it brought the cash reserves

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of the banks into more ordered form. Hitherto there had been no settled and regular practice among the commercial banks regarding cash reserves ; each had its own ideas as to how much cash it should hold, and in what form. . . Several of the banks had accumulated gold stocks of their own. Nowadays, by contrast, the gold reserves for the entire banking structure are concentrated in the Bank of England, where they are far more effectively mobilised than in the hands of various banks and innumerable members of the public. The cash reserves of the banks are now held solely in the form of balances with the Bank of England and notes in their tills and vaults. Moreover, the banks have by now become "ratio conscious" ; that is to say, they have come to maintain in their day-to-day operations a regular minimum relationship between their cash reserves and deposit liabilities. The result is that the central bank, when it thinks it necessary to increase or decrease the amount of cash available to the banks, can be reasonably sure, in all but extraordinary circumstances, that its expansive or contractive action will be quickly and faithfully expressed in the liabilities of the banks to the public.

". . . In a highly developed system a central bank has two principal instruments available to its hand in the execution of its policy—whatever that policy may be. It can act on the quantity of money available for the use of the public, and it can act on the rates charged for the use of money. . . Twenty-five years ago, by the very nature of the banking system, the first instrument was almost unknown, or at any rate very little used. . . Nowadays, instead of a mild and occasional form of quantitative regulation being used as an auxiliary to rate control, regulation of the total supply of money is the dominant instrument of policy. From time to time the quantity of money undergoes alteration without any accompanying effort to vary the rates charged for its use. The rate instrument has indeed, become far less effective than formerly, and quantity is the dominant force in present-day monetary policy.

"The importance of this particular change is two-fold. First, it relieves the economic system of the effects of frequent variations in the basis of lending rates. Industry and trade are subject to less disturbance now than before the war from oft-repeated changes in bank rate. And secondly, it has rendered monetary management far more effective.

" . . . By 1910 the gold standard as an international mechanism had operated continuously, and on the whole beneficially, for forty years. Out of the past twenty-five years, however, the gold standard has operated for no more than ten, and even then has worked only haltingly and with gravely damaging results. . . The gold standard of 1910 was really a sterling standard, subject to almost undivided management, when need arose, from London. After the war it was a machine subjected to divided control from three centres having little in common as to either objectives or instruments or surrounding conditions.

" . . . Up to the outbreak of war, monetary policy was formulated with a single end in view—the fulfilment by the central bank of the duty, laid upon it by the legislature, of maintaining the statutory parity between the pound sterling and gold. On the outbreak of war . . . monetary policy was designed to meet the financial requirements of war and at the same time maintain public confidence ; to that end it confined within what seemed the narrowest possible limits the inevitable process of inflation. When the war and demobilisation were over the guiding principle of monetary policy became definitely restrictive ; the expansion of the money supply, which had reduced the value of the pound in relation to gold, was to be undone, and the old relationship between sterling and gold re-established. Already, however . . . it was perceived that the restrictive policy was having injurious effects on our economic life, and from time to time its strict enforcement was modified in the interests of British industry and trade . . The result was the worst of both worlds, for the old parity was in fact restored without the prior fulfilment of the

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conditions necessary for its maintenance. In consequence, from 1925 to 1931 monetary policy was concerned mainly in a continuous struggle—unavailing and injurious to industry—to sustain a parity with gold which the basic conditions could not support. Hence the second departure from gold, in 1931.

In the past four years the progress of ideas has been rapid. . . The gold value of sterling has dwindled by forty per cent., but neither the Government nor the Bank does anything about it, and no one is in the slightest degree disturbed, since the pound buys just as much goods and services as in 1931. Stability of the value of the pound in terms of goods has replaced stability in terms of gold. The essence of the matter is that Britain's monetary policy since 1931 has come to be formulated with first regard to the interests of British industry and trade. Hence the great expansion of credit which took place from the summer of 1932, providing the principal stimulus to business recovery in this country, and providing it without any unfortunate consequences in the shape of undue inflation or speculative activity.

" . . . At the heart of the matter is a change in the official conception of stability. In the early post-war years the word could have only one meaning—a fixed price of gold, and hence a fixed relationship with other currencies on the gold standard. To-day a clear distinction is seen between stability in terms of gold or gold currencies and stability in terms of goods—between exchange stability and internal stability. And the second is regarded as of at least equal importance with the first. For the time being the first is impracticable, so that the second holds the field ; but it is becoming more and more clearly recognised that we cannot afford to accept the first, even when practicable, if by so doing we jeopardise the second . . . The two objectives are not always and inevitably irreconcilable, but there can be no doubt as to the change in the relative weights accorded to them in official policy . . . "

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It would seem, then, that the financial affairs of any country can be deliberately directed with a view to maintaining stabilisation of the foreign exchanges or else to carrying out some internal money policy. But neither stabilisation of the internal price level nor stabilisation of the foreign exchanges can be regarded as an end in itself: the end in view must always be maximum prosperity. Remembering this, and remembering also that the financial system is the distributive mechanism of the economic organisation, it is immediately apparent that the only sane policy to aim at in designing the internal money mechanism of any country is the greatest possible distribution of goods and services to its citizens, up to the limits of their requirements, either provided by the country itself or obtained in exchange for goods and services supplied to the citizens of other countries. But that does not seem to be the policy of "the man at the helm," who has shown a loyalty to outworn theory worthy of a better cause.

Montagu Collet Norman has been re-elected Governor of the Bank of England annually since 1919. Until he took office it had been the custom to change the Governor each year, but Norman has apparently been installed for life. As a matter of fact, the Bank is now so concerned with co-ordinating its policy with that of Central Banks in other countries that it would be difficult to return to the former practice of electing to the Governorships some distinguished City man who might or might not be conversant with international affairs. So the Directors of the Bank do not cease to re-elect Montagu Norman, and the City to trust him, the more so, presumably, because he is believed to work all the time for an ultimate return to the Gold Standard.

It has been said that in appearance, in attire, in manner—in everything except his horror of publicity—Montagu Norman is unlike the typical City man. He might pass for an artist, a musician, or a professor of foreign languages, but he is, as a matter of fact, the man responsible, possibly more than any other, for our failure to adopt in our financial matters the progressive ideas and common-sense outlook which we are quite willing to apply to the industrial side of our economic organisation. In any other walk of life it would be thought profoundly disturbing if the man in control stated, as Norman stated on the 20th October 1932, in a speech at the Mansion House that

“the difficulties are so vast, the forces so unlimited, so novel, and precedents are so lacking, that I approach the whole subject not only in ignorance but in humility. It is too great for me,”

unless at the same time he also expressed his willingness to learn or to relinquish control. Unfortunately Mr. Norman does not appear willing to do either.

In his introduction to Dr. Robert Eisler's book "*Stable Money*," Mr. Vincent C. Vickers, a Director of the Bank of England from 1910 to 1919, writes :

“Purely from a national point of view, it is necessary to realise how extremely important it is that the Bank of England should no longer attempt to stifle the efforts of modern economists nor persist in regarding all ‘money reformers’ as impertinent busybodies. Since 1919 the monetary policy of the Government has been the policy of the Bank of England, and the policy of the Bank of England has been the policy of Mr. Montagu Norman. It was not Mr. Winston Churchill, as Chancellor of the Exchequer, who initiated or was to blame for our return to the Gold Standard in 1925 ; it was not Mr. Baldwin who decided the terms

of the Bank Notes and Currency Act, or took it upon himself to ignore the request of certain industrialists for an enquiry into monetary policy in 1928 ; nor later on was it Lord Snowden who personally pigeon-holed that request for a Royal Commission on monetary policy and who substituted so soon afterwards the Macmillan Committee which seemed to some so redolent of Threadneedle Street.

" . . . As the centre of international finance, it has been proudly said that this country will lead the world to recovery. But who will lead us ? And where is that plan of action which leadership demands ? Must we be content as a nation to send forth our delegates with open minds and empty hands, to return, perhaps, with a 'unanimous decision' that, at some future date, serious consideration should be given to an International Agreement upon a mutually satisfactory basis, rendering possible an ultimate return to the International Gold Standard, subject to certain political arrangements and a previous recovery of world trade or words to that effect ?"

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Perhaps, after all, our Bankers are not really super-men with super-brains. They operate a wonderful machine, but they do not seem to control it, nor do they seem to be able to ensure that the operation shall be for the benefit of mankind. Time and again they prophesy that recovery is just ahead, and time and again some temporary amelioration is heralded as the commencement of the good times to which our financial orthodoxy has entitled us. Here are a few samples, selected from speeches made during the depression which culminated in the general strike of 1926 :

"Happily there are signs that the worst period of depression has passed . . . We may expect a cumulative increase in business activity,"—(Rt. Hon. Reginald McKenna, January 1923).

"During the last few months there have been signs of a definite improvement in trade,"—(Mr. Goodenough, Chairman of Barclay's Bank, January 1924).

"In my opinion the outlook is good."

(Mr. Goodenough, January 1925).

"I do not remember a time when, throughout the industries of the country, there has been such a feeling of expectation and indeed optimism."—(Sir Harry Goschen, Chairman of National Provincial Bank, January 1926).

To quote again from Mr. Brand, Managing Director of Messrs. Lazard Frères (reported in "*The Times*" of the 3rd March, 1932) :

"We bankers . . . are very simple and naive people. That is, of course, very contrary to popular legend, which regards us often as very mysterious, dangerous and machiavellian. I regard this as a very flattering view, and I hate to destroy the legend . . . We are in fact only the counterpart of the mediaeval witches. They were thought to be wicked, mysterious and dangerous, but really they were only a lot of poor, old, innocent women, and perhaps we are not so very different. Anyhow, after the War we believed—or we acted as if we believed—that the world had been made safe for democracy. We only later woke up with a start to find that it has been made unsafe for bankers. We saw (who could avoid seeing ?) the dangers of the world we live in. But we had to take risks or go out of business."

Still, judging by the balance sheets of our British banks, the world was not made so *very* unsafe for bankers, whose position was tremendously secure compared with that of the industrialists. As prophets, however, industrialists and politicians do not show up very much better than do the bankers. Here are a few samples from their utterances during the years immediately before the crisis of 1931 :

"I think the bottom has been reached."

(Mr. J. H. Thomas, February 1930).

"We have seen the worst."

(Sir Arthur Dorman, August 1930).

"I am confident that 1931 will see an improvement."

(Sir Herbert Austin, December 1930).

"We shall have a revival of trade within six months."

(Sir William Morris, January 1931).

We have already* discussed the effect upon industrial conditions of an increase in monetary demand. Recently Government borrowing and expenditure on rearmament has led to an increase in the amount of money in circulation and also in the speed at which it is spent, so that at the present time we are, in fact, enjoying that modified form of depression which (for want of vision) we call Prosperity. Steel works, cloth mills and other industries connected with arms and equipment are busy : the number of the unemployed is somewhat lower : the workers are demanding more of the goods and services they require, and their demand provides employment and wages in non-armament industries. Prices are beginning to harden. To some extent we are experiencing the conditions associated with a large export surplus—much hard work to make things of no real benefit to the worker—wages available to buy some of the things he does want—a rising cost of living, cancelling some of the benefit out. But, indisputably, and above all—more work. How long this will last, or what the end will be, we can only guess. Our earlier discussion of the subject leaves little ground for optimism†.

* In the face of continual disappointment and the paradoxical frustration of plenty, people lose faith in their own ability to distinguish cause and effect in the realm of

* Section 27 *supra*.

† See also Section 41 and 42 *supra*.

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economics. There seems no logical reason for poverty—yet poverty (sometimes mitigated) persists, while the professors of monetary science and the great industrialists combine in a chorus of encouragement, in order that, buoyed up by hope, people will accept with greater patience a perpetual postponement of real prosperity.

In this matter, however, the great industrialists merely echo their mentors. They utter the thoughts which they have unconsciously accepted and absorbed. They themselves have “made good” within the framework of the present system, and therefore to them the framework is essentially a sound one and one in which anyone equally gifted with perseverance and determination can achieve success. Unfortunately this rather self-satisfied view of the position is very far from the truth. Under the limitations imposed by an inadequate financial system, the success of the few can only be achieved at the expense of the many.

Consequently, as the various remedies suggested by their leaders fail to realise expectations, and as prophecy after prophecy remains unfulfilled, people begin to think that economics must lie outside the ambit of ordinary human mentality.

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Already in this Chapter a considerable amount has been quoted from *The Midland Bank Review*. Recognition is certainly due to the Midland Bank for the excellent surveys periodically issued by it. They are invariably as concise as a proper treatment of the subject will allow, clear and impartial, and therefore invaluable to the reader who wishes to be informed of current trends and developments, but who lacks either the leisure or the capacity to digest for himself the mass of information available. It

is, then, from *The Midland Bank Review** that we extract the following survey of the efforts that have recently been made to rearrange certain industries so that they may fit less uncomfortably into the framework of our existing economic organisation.

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"Before the war the idea of subsidising any industry or section of an industry, whether out of Government funds or by any indirect means, was abhorrent to the British people. The war, however, and subsequent events changed both circumstances and outlook—most people will recall, for example, the assistance given to wheat producers in the period 1917-21, in the form of a guaranteed price, with a view to lessening the country's dependence on foreign supplies. Again, after the war an outstanding example of Government subsidy was called forth by the extreme difficulties of the coal trade, and in 1925-6 more than £20 millions passed from the Exchequer to the coal industry to enable it for the time being to maintain the then existing wage levels without complete sacrifice of export business. . . . The subject has important financial implications, besides raising social questions formerly of little more than academic interest. We do not propose here to discuss all these aspects of the subject, but a brief survey of the form of subsidies recently determined upon or renewed in this country may prove of some utility.

Beet Sugar.

" . . . The sugar beet industry is of comparatively late growth in this country, having failed to establish itself on any considerable scale until after the war. The first important step in public assistance was taken in 1922, and was justified by the Government then in office on the ground of the desirability of reducing this country's dependence on overseas sugar supplies, of mitigating agricultural unemployment and of

* Issues of August/September 1934, February/March 1935, October/November 1936, November/December 1936 and December 1936/January 1937.

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improving the soil for cereal crops. Accordingly, the excise duty on sugar produced from home-grown beet was abolished. This measure proved inadequate to encourage rapid expansion, and in 1925 a subsidy was granted for domestically produced beet sugar for the period to October 1934, while the excise duty was reimposed at the equivalent of the preferential customs duty on imports from within the Empire. The subsidy, payable to the factories at fixed rates per hundredweight of sugar produced, was on a diminishing scale, and was coupled during the first few years with a minimum price payable to farmers for their beet. Under this stimulus the industry made rapid strides, the area under beet—chiefly in the eastern counties—rising from 22,400 acres in June 1924, to 396,500 acres ten years later, while the number of factories rose from three to seventeen between 1922 and 1933. Even now, however, this country produces only about one-quarter of the sugar it consumes.

“ . . . Up to February 1934 the total assistance, including subsidy and revenue abatement, totalled £39½ millions. The subsidy, which accounted for the larger part of this figure, had been paid directly to manufacturers, the extent to which growers participated indirectly having been dependent on the prices received for their beet. . . The Government in July 1935 decided ‘on agricultural grounds’ to continue the subsidy indefinitely, though at a reduced rate and subject to limitation of the volume of directly assisted production. . . About the middle of 1936 two bodies were set up to control the industry. The Sugar Commission was appointed to supervise the relations between growers, manufacturers and refiners of sugar and to advise the Government. Secondly, all beet-sugar manufacturing companies were amalgamated into a single undertaking, the British Sugar Corporation, which is registered as a public company with a capital of £5,000,000, and has on its board two directors nominated by the Minister of Agriculture.”

Wheat.

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"The next scheme to be considered, in order of age, is the 'wheat quota' system, which is different in form from the war-time subsidy and was designed mainly with the object of assisting the re-establishment of agriculture on a firmer financial and technical foundation. Here we have to deal, not with a subsidy paid directly by the Exchequer, but with one borne either by the consumer of bread or by some intermediary in the process of manufacture and distribution. . . The scheme was instituted by the Wheat Act of 1932, which in brief entitled registered wheat growers to a guaranteed price, fixed for the time being at 10s. a cwt. for their sales of millable wheat, the difference between the average prices received for sales and the guaranteed price being made up by levies on all flour imported or milled within the country. The principle underlying the scheme differs in an important respect from that of the beet sugar subsidy, which is paid at the full fixed rate on an unlimited production of beet sugar. The full 'deficiency payment' for wheat—that is, the difference between the average price received and the guaranteed price—is paid only up to a total production of 27 million cwts. ; if production exceeds that figure deficiency payments are reduced *pro rata*. . This proviso has become operative in each of the past three cereal years : thus during 1935/6 an estimated sum of £5.6 million was paid to registered growers, this representing a total return of 9s. 1½d. per cwt., which compares with £6.8 million and 8s. 8½d. per cwt. for the previous year and £7.2 millions and 9s. 6d. per cwt. during 1934/5. . . The acreage under wheat has responded to this subsidy, and now remains at about the level of pre-war years. At the beginning of each cereal year the Minister of Agriculture, on the advice of the Wheat Commission established under the Act, estimates the 'anticipated supply' for the year, and decides what levy is necessary to cover the probable outgoings."

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Milk.

"... The scheme embodied in the Milk Act... was necessitated, in the Government's view, by the fact that a growing milk surplus threatened to disorganize the market, while measures to restrict Dominion imports of manufactured milk products are prohibited for the time being by the Ottawa agreements. . .

"... The plan... came into force in October 1933, and prices have since been controlled by the Milk Marketing Board, which is representative of all producers. The Board has become a party to the contract for the sale of all milk marketed in England and Wales, which in quantity amounts to nearly 1,000 millions of gallons a year, and in value to nearly £1,000,000 a week. Producers are free to arrange their own contracts with distributors, though they must be on standard conditions laid down by the Board. Prices, however, are outside the scope of individual producers. The Board fixes the prices to be paid by distributors, while retail prices below those prevailing in the various districts are prohibited under penalty. All payments for milk sold to distributors are made to the Board, which is also responsible for milk sold for purposes other than liquid consumption—that is principally for manufacture into butter, cheese, chocolate and so forth by people who are not themselves producers of milk. . . An exception to this procedure is made in respect of 'producer-retailers' who may sell only under licence from the Board and only at the fixed retail prices for their districts.

"For the purpose of the apportionment of receipts to producers the country is divided into eleven districts, and each district is to a large extent treated individually. The total sum realised from the sale of milk in each district, whether used for liquid consumption or for manufacturing purposes, is credited to a 'regional pool' and divided among the producers, according to the number of gallons sold. . . In addition to the price, some producers receive extra payments for

deliveries in steady quantities and for special high quality milk.

"... Prices for liquid consumption vary from 1s. per gallon in mid-summer to 1s. 5d. in mid-winter. Those for manufacturing purposes vary between themselves in accordance with the prices of competing imports and the particular manufacturing purpose ; on the whole, they are considerably lower than prices for liquid consumption. In January 1935, for example, they averaged rather less than 6½d. per gallon. . . As between different regions, the larger the proportion of milk which cannot be sold for liquid consumption, the lower is the regional pool price. . . The varying pool prices are to some extent levelled by the operation of an interregional compensation levy. This is fixed at about 1d. a gallon for all milk sold as liquid milk, and nearly the whole of the levy is allocated to the regional pools in proportion to the quantity of milk sold for manufacture. . .

"The principal difficulties faced by the Board have arisen from the large 'surplus' of the supply of milk over the requirements for liquid consumption. In addition, although the liquid demand has expanded but little, the total supply of milk has increased substantially under the stimulus of rising prices and improved receipts by farmers who in the past depended largely on the manufacturing market. The 'surplus' thus tends to grow, and even in January last, when total production was seasonally low, it amounted to 28 per cent. of the supply. The low prices received for the surplus are traceable to the competition of imported milk products. The Government under the authority of the 1933 Act, has curtailed imports from foreign countries, but a large part of Britain's supplies, more especially of butter and cheese, comes from countries within the Empire and these it has so far been impracticable to restrict. . .

"Some expansion of demand may result also from arrangements made to improve the quality of the

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supply. . . Accredited producers of 'Grade A' milk receive a premium of 1d. per gallon.

"Britain's consumption of liquid milk per head of the population is still only one-third of a pint a day. . . Attempts to improve the demand for liquid milk have included a publicity campaign and the provision of cheap milk for schoolchildren, undertaken by the Milk Board with assistance from the Government, while milk-bars have been opened in different parts of the country. . . In spite of the Board's efforts, there has been no sufficient expansion in sales of milk for liquid consumption, and pool prices, which represent an average return on all milk sold, have shown no sustained improvement. . . even though the price of milk sold for manufacture has been maintained at a steady level by means of advances from the Government, and notwithstanding the opening by the Board of several provincial factories for the manufacture of milk products.

"... The position is becoming more and more difficult, and it is not surprising to find that the report of the Milk Reorganisation Commission recommends extensive alterations in existing marketing arrangements. . . It suggests the establishment of a permanent milk commission appointed by the Government, which would be responsible for production policy and for determining both producers' and wholesale prices. . . An important proposal concerning the price system is to separate sales of milk for liquid consumption from supplies for manufacturing, so that the liquid milk price shall cease to support, as hitherto, the return on manufacturing supplies. Instead the Government would increase the subsidy payable on milk used for manufacture, the total annual sum required under the new arrangements being estimated at £5,000,000. Moreover retail prices would no longer be regulated by the terms of producers' contracts, but would in general be determined by competition.

"... Whatever view prevails on particular proposals. . . it is to be hoped that the new arrangements

will help to lessen the disparity between the average milk consumption per head in this country and other parts of the world, bearing in mind the desirability of extending the use of liquid milk among those to whom price is of decisive importance."

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The sugar-beet, wheat and milk industries are not the only ones subject to State regulation. Hops, beef, pigs and bacon, eggs and poultry, and potatoes have each their appropriate marketing schemes, while similar proposals are being considered for other commodities. A few general observations on these various devices for salvaging particular industries may therefore not be out of place.

First, it must be noted that all these schemes rely for their success on their ability to obtain more money from the pockets of the consumers, either directly through higher prices, or less directly by taxation and subsidy. The sugar, wheat and milk industries each looks to a different quarter for its increased return. The sugar-beet industry looks to the Exchequer for a direct subvention—which means that the tax-payer has a smaller surplus to spend elsewhere. The wheat producer receives help from a fund raised by a levy on flour imported or milled. This raises the price of flour by, say, 3d. a stone, and the customer pays. In the case of milk, the whole scheme so far is hedged about with pains and penalties for the producer who disposes of his surplus at less than the official price.

Now there may be very good reasons of State why these agricultural industries should be revived—it is, for instance, obviously desirable in this troubled world that our reliance on other countries for food supplies should be lessened—but without an increase in total spending-power any increase in the demand for sugar, wheat or milk can

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only be achieved by diminishing the demand for the products of less sheltered industries. It does not necessarily imply a general increase in the standard of living.

What has, in fact, been the effect upon the demand for these products? The domestic supply of beet-sugar is growing, but at the same time there does not seem to be any corresponding reduction in our sugar imports. We seem as a nation to be eating more sugar in one form or another. As for wheat, although the money value of imported wheat has fallen during the past few years, the actual quantity imported has shown no abnormal variation. This is probably because the increase in home-grown wheat, though large if expressed as a percentage of the former crop, is but small in comparison with the total consumption. The consumption of wheat and wheat-products is probably nearly stationery. The milk scheme set out to secure a substantial increase in the amount of milk drunk. It has succeeded to some small extent, in spite of slightly higher prices. Some of this increase, of course, is due to the special supply for school children. But probably the explanation of the maintained demand for wheat and milk is that their consumption was already so small per head of the population that it could not very well fall lower.

As a result of the hops scheme and the potato scheme, in which extensions of acreage are severely discouraged, the average prices of these vegetables became higher, but here again there seems to have been no falling off in demand. The price of hops forms but a small part of the price of the product for which hops are principally used, while even at increased prices potatoes are still one of the cheapest of foods reckoned by bulk. A decreased general demand might even be expected to create an increased special demand for this humble but useful article of diet. Potatoes can replace more expensive foods, but there is as

yet no palatable and cheaper substitute for potatoes. The scheme carried out by the Potato Board at Bishop Auckland in the Spring of 1935, when surplus potatoes were sold at specially low prices to unemployed people, showed, however, that consumption responded to price to an extent which the Board found surprising. Under the bacon scheme, higher prices were accompanied by a noticeable fall in demand.

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The various schemes no doubt benefit the industries concerned; they become as it were "sheltered" at the expense of other industries. In the long run imported goods (particularly agricultural goods) may be increasingly displaced by home products, and while this has many advantages, it cannot claim among them a raising of the general standard of living or the easing of the international problem of a predominantly creditor country.

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Let us now go a step further and try to ascertain exactly what is or what should be the basis of a rational money system. Before we do so, however, it may be desirable to discuss four definitions—*real wealth*, *financial wealth*, *real credit* and *financial credit*. Defining these terms will clarify our ideas while leading directly to the answer to our question.

Real Wealth consists in *ability to deliver goods (including services) as, when and where required*. Ability to deliver goods does not depend only, or even principally, on the amount of goods already in existence. It depends very largely upon the capacity for further production. It is not, however, essential for us to differentiate: the distinction between goods in being and goods which can be manufactured lies only in the degree of their availability, which is in many cases almost negligible. Emphasis must,

however, be laid on the qualification "*as, when and where required.*" Mere increase in the capacity to produce goods does not add to the wealth of the community unless the new goods are of a kind which people want, available at the time when and at the place where they are wanted. Real wealth is, in short, capacity to meet material requirements. Power to deliver in a week what I need urgently to-day is not real wealth. At the same time, capacity to deliver in a week's time what I do not require for a month is none the less real wealth because the thing which I do not at the moment desire is not immediately available.

Similarly, *Financial Wealth* consists in *ability to deliver money as, when and where required.* Here again, financial wealth does not depend solely on the amount of money which is immediately available : it depends also upon ability to obtain money as and when it is needed. This ability may be due to power to make and sell what the public requires : it may be due to earning power : it may be due to the existence of rich relations : it may be due to a pleasing personality : it may be due to many other things. The power to obtain money is often more important than the amount of money in hand. People who are normally regarded as "well off" are often without any great amount of ready money, either in their immediate possession or standing to their credit at the bank. Their financial wealth lies mainly in their power to obtain money as, when, and where they require it.

Credit, whether real or financial, implies a belief in the ability of the person credited to accomplish something. *Real credit* may therefore be defined as *belief in the ability of the person credited to deliver goods (including services) as, when and where required*, or (more briefly) belief in his real wealth. A manufacturer's real credit, for instance, is the estimate made by others of his capacity to deliver

goods as, when and where required, and may be due to his actual or reputed possession of suitable machinery or of accumulated stocks. It is *other people's belief* in the manufacturer's ability to deliver goods which constitutes his real credit. The belief may be wholly erroneous, but that does not diminish his credit while such belief lasts. Conversely, a person quite capable of delivering goods and services that people want may be quite "without credit" because nobody believes that he can do so*.

Perhaps this can be seen even more clearly in the case of *financial credit*, which may be defined as *belief in the ability of the person credited to deliver money as, when and where required*. Suppose I approach my banker for a loan. He will either grant or refuse such loan according to his belief or disbelief in my capacity to repay the money with interest, as, when and where required—according, in fact, to my financial credit. The banker may be thoroughly mistaken in his opinion (although he will no doubt make all reasonable enquiries), but it is according to his final belief that I do or do not receive the loan.

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The more money there is on the buying side of the market, the greater is the opportunity for persons with things for sale to obtain a profitable price from the public. It follows, then, that the more money there is already in circulation, the more likely is a banker, when approached

* Major Douglas, in "*Control and Distribution of Production*" (page 10) has defined Read Credit as "*A correct estimate of the rate, or dynamic capacity, at which a community can deliver goods and services as demanded.*" It is however, submitted that in matters of measurement, a "*correct estimate*" of a thing is the thing itself, and that the credit accorded to a person has nothing to do with the *correctness* of the belief in his capacity, but only with the *existence* of such belief.

by a manufacturer or retailer for a loan, to think that the latter will be able to repay it as, when and where required. The more likely, therefore, is the banker to grant the loan or overdraft asked for, although, of course, he will at the same time almost certainly require "security" against failure to repay.

Mention of security makes it necessary to emphasise one thing very clearly. The banker does not, when granting a loan "on security," monetise the security placed with him. He merely holds the same as a means of collecting money from somebody else (by sale of the security) if the borrower should eventually default. It is necessary to be quite clear on this point, as there is a fairly widespread manifestation of slovenly thinking to the effect that bankers, in some mysterious way, turn into money what is placed with them as security.

But that is by way of parenthesis. The more money already in circulation, the better is a borrower's financial credit likely to be, and the sounder the basis for the issue of fresh loans and overdrafts. Here we find the explanation of the trade cycle. Periods of active borrowing, industrial productivity, and relative prosperity continue until the mass of bank promises-to-pay is so great in proportion to the amount of legal tender that the banking system cannot be sure of paying out legal tender on demand in exchange for its own promises. The conventional safety ratio is, or appears about to be, exceeded, and steps are taken to "liquidate the position." The total volume of money ceases to expand. Traders find it rather less easy to sell their goods. Financial credit diminishes and loans are called in. This process is marked by monetary contraction, industrial stagnation and general trade depression.

Now, although monetary contraction may result in mental as well as industrial depression, it is as well to observe that

“A depressed state of mind is initially a resultant of bad trade before becoming a cause of its continuance.”*

Those who find the explanation of trade depression in “lack of confidence” and who would seek to restore prosperity by engineering confidence—the confidence trick?—might do worse than consider how the lack of confidence originated.

Clearly, then, the trade cycle is the natural result of a system whereby the amount of legal tender in circulation is limited, not by the needs to be met, but by other almost unrelated requirements. Economists, however, seem to find it difficult to accept as satisfactory an explanation of the trade cycle which is a manifest condemnation of the existing financial system, and accordingly they content themselves with drawing graphs to show how long slumps are likely to last and how deep, on the basis of previous experience, the depressions are likely to be. According to their theories, slumps are quite inevitable, following times of relative prosperity as naturally as night follows day.

* Rt. Hon. Reginald McKenna, January, 1931.

Chapter IX

PURPOSE AND PRINCIPLES

The Purpose of Industry—First Principles—The Location of Factories and Spending Power—Distribution and Salvage—The Bankers' Dilemma—State Money.

(66)

We have now traversed the first stage of our journey, and have seen the present position to be really precarious. The body politic is patently in a most unhealthy condition, and we have diagnosed a very serious and lying complaint as chronic lack of purchasing power—economic anæmia. But before we prescribe a remedy let us determine the kind of cure we wish to effect.

PART TWO

Now we come face to face with the fundamental question of purpose. What is the purpose of economic organisation? Why do people go to work? Why do they go to work? What are the motives and incentives? Why do they go to work? On the face of it there would seem to be but one answer: in order that they may make the goods and services they need, and if possible have them in abundance. But that would be over-simplification. People "go to work" nowadays, not necessarily to make goods or to perform useful services, but primarily to earn wages or salaries, and it is more or less immaterial to them what they are called upon to do for their pay. It may be to make things people really want—although census figures show that only about one-fifth or one-sixth of our "workers" are employed in productive processes—or it may be to construct machines to make such things; it may be to make armaments for attack or defence, or to sell to other nations; it may be to make things that will never be needed; it may be to make

PURPOSE AND PRINCIPLES

PART TWO

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(66)

We have now traversed the first stage of our journey, and have seen the present position to be madly precarious. The body politic is patently in a most unhealthy condition, and we have diagnosed the underlying complaint as chronic lack of purchasing-power—economic anaemia. But before we prescribe a remedy let us determine the kind of cure we wish to effect.

Here we come face to face with the fundamental question of *purpose*. What is the purpose of economic organisation? Why have men created machines and factories? Why have they devised money and credit? Why do they go to work? On the face of it there would seem to be but one answer: in order that they may make the goods and services they need, and if possible have them in abundance. But that would be over-simplification. People "go to work" nowadays, not necessarily to make goods or to perform useful services, but primarily to earn wages or salaries, and it is more or less immaterial to them what they are called upon to do for their pay. It may be to make things people really want—although census figures show that only about one-fifth of our "workers" are employed in productive processes—or it may be to construct machines to make such things; it may be to make armaments for attack or defence, or to sell to other nations; it may be to make things that will never be needed; it may be to make

things people would be better without ; it may be to draw up documents, or it may be to add up figures ; it may be to bring goods into the country, or it may be to send them abroad. To the worker it matters very little so long as he draws his wages. Even if his manhood revolts against the job he has to do or the conditions in which he has to do it, the necessity of keeping his job or (if jobless) of accepting any "suitable" employment, breaks down his uneconomic squeamishness. Business undertakings are consequently looked upon more and more as organisations where people may, through work, obtain money.

A secondary reason why men go to work is that they may find an outlet for their creative energy. Or perhaps it would be more correct to say that their creative energy is directed into doing work or seeking work for fear of its misapplication in hours of leisure. Lest they might learn to know freedom for the joyous thing it is and prefer it (even at the risk of wasting or abusing it), the leisure of our surplus labour is not recognised as the happy relief from the curse of Adam for which men have prayed, but is regarded rather as an interim period of purgatory in preparation for a Heaven of work eternal.

NB
Groups
sapped

It is important to emphasise that the old necessity for work as a means of procuring a livelihood is still being utilised as an instrument of Government, a means of keeping men occupied for occupation's sake, of tiring their bodies so that their mental energy may be sapped and their opportunities for self-expression limited. It is an old device. The Egyptian Government of Pharaoh's day knew the value of work as a defence against subversive propaganda :

"And Pharaoh the same day commanded the taskmaster of the people, and their officers, saying,

Ye shall no more give the people straw to make bricks, as heretofore : let them go and gather straw for themselves. And the tale of the bricks, which they did make heretofore, ye shall lay upon them ; ye shall not diminish ought thereof : for they be idle ; therefore they cry, saying, Let us go and sacrifice to our God. Let heavier work be laid upon the men, that they may labour therein : and let them not regard lying words."*

So we see that in addition to its fundamental purpose of supplying the material requirements of mankind, economic organisation is at the present day saddled with two other jobs. It is, in the first place, practically the sole mechanism for providing people with the power to claim the goods and services they need. It is, in the second place, an instrument of Government, deliberately limiting the leisure and energy available for creative efforts of mind or muscle outside the regimented and disciplined activity of industrial production.

These two functions, superadded and incongruous, hinder our economic organisation in the fulfilment of its true purpose of supplying wants. Insofar as the provision of incomes can be carried on through the processes of industry without detriment to its prime purpose of producing the goods and services men need, there is little practical objection to utilising industrial organisation for that end : and insofar as human work is still necessary for the provision of goods and services, the necessity for such work must be recognised. But industry must not be treated primarily as the giver of incomes or the provider of jobs if the effort to make it a satisfactory mechanism for either of these purposes renders it a less satisfactory instrument for the provision of goods and services.

*Exodus, V : verses 6 to 9.

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Turning now from our brief examination of the purpose of Industry, we shall no doubt agree that any sane system of economics and any satisfactory industrial organisation must, wittingly or unwittingly, be established on definite principles. Otherwise confusion, contradiction and compromise act and counteract, limiting here, frustrating there, leading to doubt and difficulty everywhere. Herbert Spencer recognised as one of the major troubles of his day the fact that

“Orthodox economics consists merely of empirical generalisations not co-ordinated by a rational principle. Future progress depends on the discovery of a rational principle.”

Economists should therefore enunciate clearly and without equivocation their basic principles, and having done so should keep them clearly in view when propounding remedies for our present distresses.

Practical experience as well as common-sense dictates that the productive and consumptive sides of our economic system must be linked together. If for some reason people's financial capacity to buy is limited, much of their physical capacity to produce goods and services for sale remains unutilised. At the present day, our power to purchase goods for consumption is by no means as great as our physical power to supply. We therefore hear of frantic efforts made to compress our production into the compass of our limited power to consume, as by the destruction of fish at Grimsby, the shooting of calves in the Irish Free State, the sinking in the sea of Brazilian coffee, the burning of wheat in Canada and the ploughing back of cotton in the United States. We see the tremendous waste of productive capacity inherent in the unemployment of men and machines, and in the deliberate rationing of production

below the real needs of would-be consumers. There is no "co-ordination by a rational principle." But co-ordination of production and consumption there must be, whether rational or not, and the present childish and cruel attempts to gear our physical powers of production down to our financial powers of consumption are all the more regrettable because they cannot possibly achieve their aims. Prices may be raised by the scarcity of stocks, but the available spending-power is brought no nearer to the total amount of unrecovered costs, while higher prices tend to depress the standard of living. For this reason we hear of surplus milk threatening the farming community with ruin while the simultaneous under-nourishment of mothers and infants threatens the stamina of this and the next generation.

We cannot, dare not, visualise the continued gearing down of our real wealth to fit the restricted capacity of the community to buy : on the contrary, we must proclaim as a cardinal principle of reconstruction that the financial power of people to buy and consume the goods they require must be definitely stimulated up to their physical capacity to make such goods. There must be co-ordination, and such co-ordination must conform to this rational principle.

Therefore, recognising formally and frankly that the primary purpose of economic organisation is to provide people with the things they need, we find our first basic principle to be that *the power of the members of a community as individuals to claim goods and services must be equal to their capacity to provide, by their corporate effort, the goods and services they desire or can exchange abroad for desired goods and services.* This seems such obvious common-sense that it is curious to find that it is not recognised in the system of the present day.

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“On the assumption that the delivery of goods and services is the objective of the industrial system, it is obvious that the rate of flow of purchasing-power should be equal to the rate of generation of prices. The existing financial arrangement makes crude efforts to approximate this condition by issuing purchasing-power to manufacturing organisations in the form of loans, which in turn the manufacturing organisations distribute in wages and salaries against future production. In other words, the existing financial system increasingly mortgages the future in order to sell the goods existing at present, the most recent and most obvious form of this practice being the instalment system of purchase.”*

It would seem, therefore, that in a rational economic system there should be some way in which money could come into the pockets of consumers without having first to pass through the processes of industry, adding to costs and maintaining any existing disparity between prices and purses.

Let us briefly restate the position. Machinery is busily creating leisure, involuntary and unpaid. If unemployment did not usually entail a serious diminution in power to claim goods and services, it would present no problem in the economic sense. Economically, leisure only presents a problem when unaccompanied by the means of livelihood. Socially, increased leisure may present its particular difficulties, but the proper use of leisure and the proper conduct of the leisured are matters for education and government : it is not part of the duty of economic organisation to restrict leisure artificially so as to minimise educational or governmental problems. In passing it may also be remarked that

* Major C. H. Douglas, in his speech to the World Engineering Congress, Tokio, 1929.

"a system which will not allow the population of the world to obtain goods without obtaining money through the making of further goods which are not and may never be required, is a direct explanation of the senseless strain and hurry of the modern business world."*

There is, as we have seen, an inherent and increasing disparity between the costs which, under current accountancy, industry has to recover through prices (if it is to remain solvent) and the power of the public to surrender money in return for goods, and this must always be the case in any progressive industrial community whose money system requires (1) that every penny distributed to consumers through the processes of industry must sooner or later be recovered through prices, and (2) that the money enabling people to claim the goods and services produced by industry must first of all have been paid to them in the course of production.

"From this disparity between purchasing-power and goods available arises almost every material economic ill from which the world suffers to-day, including in that category the imminent risk of devastating wars. The so-called unemployment problem is not a problem at all, but a direct result of scientific methods applied to industry, becoming an economic and political menace of the first order because unemployment carries with it a failure in economic distribution."†

The existence of this disparity indicates the need for the introduction of new money into the economic cycle, not at the producers' end (reaching consumers only as the reflection of further costs) but on the buying side of the market. And it is also desirable—even if not absolutely essential—that the new money should enter the economic

* Major C. H. Douglas in "*The Monopoly of Credit*," at page 50.

† Major C. H. Douglas in "*Warning Democracy*," at page 103.

cycle in such a way as to lead to either (1) a diminution in prices without a corresponding diminution of incomes, or (2) an increase in incomes without a corresponding increase in prices. How this can be done we shall consider later : here we must simply record that the method has been discovered and can be applied.

The new money from time to time required, so far as it consists of currency, can be composed of any suitable material, and paper is in many ways the most convenient. Much of the new money, however, need not exist in any tangible form whatever, but (like the greater part of our money at the present day) be in the form of promises to pay, made by the competent authority. Money (of whatever kind) does not owe its value merely to the possibility of conversion into gold or any other specified commodity. Money is used for a definite purpose and anything that will serve that purpose has a value. There must be a proper balance, however, and a shortage of monetary units is even more fatal to industrial progress than is a superfluity. Accordingly, as the real wealth of the country is increasing year by year through "a positive acceleration" of invention and discovery, the purchasing-power of the country must be increased also, unless there is to be waste of effort and industrial depression.

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The disequilibrium between purses and prices, and the necessity for stimulating consumption was emphasised by Sir Arthur Salter, when he wrote in "*The Times*" of December 8th, 1930, that

"The notion that in the nature of things there is a fixed limit for human needs is a delusion, and will be till the last Hottentot lives like a multimillionaire. It is not human desires that set the limit to consumption but purchasing-capacity of earnings. With a

world system properly functioning these should in total approximate to the world's producing capacity."*

Sir Arthur Salter sees the gap between earnings and prices. He does not seem to see, however, that merely to increase earnings is no way to bridge this gap, because the increase must, under present conditions, be reflected automatically in increased costs.

"A new truth has emerged as a by-product of the mechanisation of production—that no man can be poor alone; his money poverty must make others poor. The newly-made poor man is a restriction on the purchasing-power of the world. The use of the purchasing-power of individuals is the fundamental of business. If it is individually lessened, business is lessened. In fact, non-consumption is a contagious complaint—poverty a certifiable disease."†

Here are a few more examples of frustration and folly taken from an article entitled "*The Year of Science*," appearing in the "*Manchester Guardian Weekly*" of 5th January, 1934.

"The present social disorder is intimately connected with this riot of discovery, as the application of science to agriculture has, in the absence of adequate social direction, helped to precipitate it. Within the last ten or fifteen years, the advances in agricultural science have been such that the world's capacity for food and organic raw material production has been doubled. Sir Daniel Hall writes that the recent progress in power machinery has increased the efficiency of large-scale farming to a degree not yet appreciated. The proper employment of power machinery requires a wealth of directive skill and a technique of national organisation which only began to be attempted during the war. Sir Daniel regards the Soviet planning as a generalisation of this tendency,

* Quoted by Dr. Robert Eisler in "*The Money Maze*," at page 11.

† Will Dyson, in "*The Artist among the Bankers*," at page 167.

and considers the possibility of its success is so good that only drastic improvements will enable agriculture in other countries presently to compete with it.

"While an American Professor of Agriculture complains that 5,000,000 pigs weighing less than 100 lbs. and 200,000 prospective mother sows are to be slaughtered to restore national prosperity, Danish scientists are introducing central heating into pig-styes because pigs require 20% less food if kept warm artificially, and the cost of the extra food is more than that of the central heating. After this ingenious achievement the Danes are having to turn many of their pigs into soap, because new British laws have limited their market for bacon. The British Minister of Agriculture has offered incentives to pig-breeders, and within a few months is already complaining of a plethora of pigs."

Could anything be more mad ?

"The human hand it is that has outlawed our ancient enemy, famine and all scarcities—but human lips still intone as eternal truths the slogans and the apophthegms that were bred of scarcity and drew their temporary validity from a want that was supposed to be eternal. The vocal expression of the soul of man is still couched in the images and the prohibitions of our past hell upon earth, and operate to keep it still in the likeness of hell. The high morality of the earth clings to a hundred doctrines that have been made actively unmoral by the operation of the handicraftsmanship of man. Thrift—yesterday a necessity masquerading as a virtue—is to-day no longer a necessity : it is nonsense, save as a check to stupidity. For it to continue to pose upon a higher valuation is nonsense. For thrift to-day to operate as a virtue requires the condition of scarcity so to ennoble it : if it is encouraged as a virtue it will produce that scarcity."*

* Will Dyson in "*Artist Among the Bankers*," at page 71.

So much for the want and the madness and the contradictions which arise from our attempting to run this modern age of power along lines inherited from an era of handicraft. But the ugliness of insecurity has hardly yet been mentioned. Not only is there poverty but there is the haunting fear of poverty. And there are those other fears that still abound in the world to-day : the fear of hunger, the fear of mental breakdown, the fear of one's fellows, and always and above all the overhanging fear of war. Economically we are at war. Tariffs, quotas, and trade-barriers are all weapons in a strife which is only not called war because it is not military. Such war may not physically lacerate : but it results in slow death and demoralisation : its wounds are rickets, anaemia and the stunted development of mind and body ; it leads through poverty to crime and through insolvency to suicide : and finally and inevitably it leads to the crash of high explosives, to poison gas and bombing planes, to tanks and trenches, to mangled limbs and distraught minds—to the war that people recognise as such. The germ of war is ever present. The talk and thought of war are here. The idea of war is in every mind. Statistics can never reveal the extent to which this feeling of insecurity is responsible for the crime, the wretchedness, the nervous debility and the moral irresponsibility of the present day, manifesting itself in an open detestation of things as they are, and a dread of things as they may become.

And now, having talked "about it and about," what second principle emerges ? Simply that *a person's power to claim goods and services must in future be less and less dependent on his or her direct contribution to production.* That is the second vital principle of reconstruction, and only by accepting it fully and frankly can there be erected a civilisation that will not be crushed out of existence by the weight of its own unconsumable wealth.

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It seems obvious that if either of the foregoing principles were incorporated in our financial system it would no longer be possible to regulate our monetary supplies on present lines or solely by the existing mechanism. Modifications such as recorded in Section 59 are of little avail. Modern principles call for modern machinery to supplement if not to supersede the old.

We have seen that at the present day new money only comes into existence as the reflection of new debt through the now well-known operations of the banking system. What, therefore, prevents the banks from creating money more freely, so that, as required by the first basic principle, the continually increasing capacity of the community to deliver goods and services may be reflected in an increased ability to buy? Why cannot the banks expand their advances and their investments more or less indefinitely? Such a question presupposes that the increased spending-power of the community would not find itself reflected in higher prices, resulting in little or no increase in buying power. We have seen that the question of prices presents a serious difficulty, but assuming for the moment that this could be overcome in some orthodox manner, it may be well, in this re-survey, to emphasise again certain points.

In the first place the banking system is prevented from creating an indefinite number of new "promises to pay" by the necessity, under the present system, of keeping a safe ratio between the volume of promises and the supply of cash available. Accordingly the system as a whole has an upper limit to the amount of money that can be in circulation at any one time, ultimately determined by the amount of legal tender in the vaults or tills of the banking system. In this country, as we are well aware, the amount of legal tender depends upon the amount of gold in the

vaults of the Bank of England. It is therefore quite clear that the acceptance of the foregoing principles implies the unreserved abandonment of the gold basis and with it the gold standard. But for reasons already emphasised, it is singularly hard to free the mind from the obsession of gold.

"Gallileo's predecessor, Copernicus, had discovered all the important laws of planetary motion, but he could not free himself from the notion that in space there must be an above and a below ; he was therefore bound to the theory that planets roll on solid planes around the sun. Gallileo freed mankind from this error : he grasped the fact that the sun and the planets soar in space. The gold 'covering' of money corresponds to the solid plane of Copernicus."*

Similarly we, in our search for co-ordinating and rational principles, must free our minds from errors inherited and inherent, even to the rejection of the gold fetish.

In the next place, the banker can only lend to acceptable and solvent borrowers, for he must be reasonably sure that his loans will be punctually repaid with interest. (Is it not *your* money which he claims to be lending ?) In times of so-called prosperity (mitigated depression) it is the first of the above considerations which generally limits the bankers' loans and investments. In times of industrial stagnation it is usually the second consideration which comes into play, for then the would-be borrowers are often those on whose ability to repay the banks are unable to rely. The credit-worthy members of the community are probably more anxious to repay existing loans than to incur fresh ones.

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For these and other reasons, the banking system cannot regulate the amount of money in circulation in conformity

* Dr. Theophil Christen in "*Free Economy*," at page 19.

with economic needs, so long as it is operated on its present principles. Even if it were so modified as to be enabled to expand its "promises" more or less indefinitely, there would still remain a number of other difficulties to be overcome. For instance, the mere creation of fresh money by the banks does not necessarily mean that such money reaches the buying side of the commodity market. In certain cases, as we saw when considering the American situation, it may be withdrawn from the industrial cycle altogether and merely operate in the investment market. In such cases the contemplated increase in monetary demand for goods does not occur. Again, the banks can only lend on a pre-supposition of repayment. But the idea underlying the issue of new money to consumers is that with it people may be able to claim and consume the goods and services that industry can provide. That being so, the money must reach the consumer not as a loan, reflecting a debt and presupposing repayment, but as an absolute gift. No authority less than the State itself can afford to dispense gifts in this way for an indefinite period, and therefore it is the State itself, and not the banks, which must create the new money from time to time required to bridge the gap between prices and purses.

Of all the prerogatives of Government, the issue and control of the money supplies would seem the most essential. It is, at any rate, a power far too important to be left in private hands. Even those who most strongly uphold private enterprise are willing to admit that in some cases it is good for the community that the State should be the sole authority. For instance, the Army and the Navy are departments of the social structure which cannot safely be left in private control. The postal, telephonic and telegraphic services form another enterprise which few people would wish to see restored into private ownership.

And the control of the money supplies—a power and monopoly even more vital—should not be left in the hands of private persons for private gain whether of money, prestige or power.

It sums up to this : unless the State intervenes with a genuine gift of money to the consuming public, there is no practicable method of bridging the gap between purses and prices. However liberally the banks advance new money to producers and manufacturers, all creations of such new money are at the same time creations of new debt, and on its way to the consumers through the processes of industry such new money creates as many new costs as it can afterwards cancel, and probably more than it actually does cancel. Monetary expansion on orthodox lines might achieve some improvements in the industrial position, due to an improved ratio of demand to costs, but there could be no hope of such improvement being great or long continued.

Accordingly two further principles emerge, viz. :—

That the regulation of the national money supplies must be under the control of the State, and

*That a proportion at least of the new money from time to time required must be issued by the State direct to consumers as a gift, and not as the reflection of new debt.**

* For an interesting and apparently successful experiment in the State issue of money, see Appendix F.

Chapter X

THE SOCIAL CREDIT SUGGESTIONS OF MAJOR DOUGLAS

Realistic Principles—The Concentrated Principle—The Price of
Factors—Supplementing the Wage System—National
Dividends—Debtors and Producers—What a Service—
The Best Method

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PART THREE

POLICY AND PROPOSALS

PART THREE

POLICY AND PROPOSALS

Chapter X

THE SOCIAL CREDIT SUGGESTIONS OF MAJOR DOUGLAS

Realistic Principles—The Compensated Price—The Price Factor—Supplementing the Wage System—National Dividends—Sisyphus and Procrustes—Work as Service—The Dual Mechanism.

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At the risk of being accused of wearisome repetition, we must again remind ourselves that the two fundamental principles of our present business system are (1) that every penny distributed by industry in the course of production must sooner or later be recovered through prices and (2) that the money whereby individuals may claim the goods and services they desire must first of all have been distributed in the course of industrial processes. We have also seen that these two principles are mutually incompatible in a community in which machinery and productive capacity are continually increasing. It would, therefore, appear more sensible in any progressive industrial community to arrange matters so that (a) industry need not, to remain solvent, recover through prices every penny it distributes and/or (b) the members of the public should receive means to claim goods and services in addition to the wages, salaries and dividends distributed to them in the course of production. The Social Credit proposals violate both the existing axioms of sound business finance. And that perhaps is why business men, trained in the present accountancy methods and brought up from boyhood to accept without question the two principles set forth at the beginning of this Section, find it so difficult to realise that they can be discarded with safety if reasonable precautions are taken.

Advocates of Social Credit claim that they are, above all, realists in their aim to make the money system an accurate reflection of the productive system. They hold that it serves no useful purpose to increase our power to produce goods if more goods do not in fact result, and that it is merely waste of effort to produce goods if such goods cannot be distributed to those who want them. They put forward proposals, therefore, under which it is no longer necessary for industry, in order to remain solvent, to sell its products at a price which includes every penny distributed in the course of production, and also under which means to obtain goods can be distributed to the public otherwise than through the processes of industry.

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The first Social Credit suggestion, that of "The Just Price"—or as we prefer to call it, "The Compensated Price"—distinguishes the Social Credit proposals from those of all other schools of new economic thought. The proposal for a Compensated Price is, without doubt, glaringly unorthodox, and apparently causes considerable mental difficulty to those who either cannot or will not understand the underlying principles on which it is based. The suggestion is a threefold one : (a) *that goods desired by consumers should be sold to them at a proportion of the financial cost of their production ;* (b) *that this proportion should be calculated in accordance with industry's capacity to meet the increased demand ;* and (c) *that the Treasury or other public issue department should then reimburse to the sellers the amount they were consequently out of pocket.* The claim is made that consumers would thus obtain that additional purchasing-power without which they are unable to make use of industry's ever-increasing capacity to deliver the goods and services they want.

In "*This Age of Plenty*" the writer has examined this unconventional suggestion carefully, discussing each of the three parts in detail. If, then, it should appear that in the following pages the argument from that book is repeated somewhat closely, indulgence is requested on the ground that the writer lacks the necessary ability to re-state the matter more completely, directly or simply.

The suggestion that consumers' goods should be offered to buyers at a percentage of the financial cost of their production follows directly from a realisation that the physical, as distinct from the financial, cost of making anything is the material consumed in the making. The members of a primitive community, for instance, plant trees and tend them, and in due course gather the fruit for food and make clothes out of the leaves. In the meantime they eat some of the fruit already gathered, wear out some of the clothes already made, cut down some of the existing trees and build new huts. The physical cost of the new trees and fruit, garments and huts is the fruit eaten, the clothes worn out, and the trees cut down. The truth of this argument does not depend on whether or not cowrie shells or peacocks' feathers are passed from hand to hand during the various transactions. If shells or feathers are in use as primitive money, then at the end of the period under consideration, some have more "money" than they had while others have less. But, taking the community as a whole, the presence or absence of "money" in circulation does not affect the argument in any way.

It is equally true that, in these more complex days, the physical cost of the goods made in any period is the sum of the goods simultaneously consumed. National Depreciation, which includes all consumption of goods, all export, all depreciation and scrapping of obsolete machinery, is the physical cost of National Appreciation, which

includes all goods made, all imported goods, all new machinery erected. Nor is the argument affected by the continual transference of money during the processes of production and consumption.

Now in any modern industrial community appreciation normally exceeds simultaneous depreciation. Consumers' goods cannot for any length of time be consumed faster than they are made, and the erection of new factories and new machinery, the introduction of new methods and processes, the development of mines, etc., continually outstrip simultaneous capital depreciation.

"The real cost of National Production is National Consumption—something much smaller. If the money system were a scientifically 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, which is just what Major Douglas suggests."*

W. T. Symons expresses this basic principle very neatly when he writes :

"Prices of goods to consumers should be the monetary expression of what has been destroyed or used up in their production, without the addition of any cost on account of capital equipment that remains for future production, (a) because this is just, and (b) because it is only at this figure that the goods can all be sold to the public."†

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The reason for selling under financial cost being to enable the production of goods and services to be reflected in increased consumption, it follows logically that the

* "*This Age of Plenty*," Section 92.

† "*The Coming of Community*," at page 75.

reduction in the cost of goods to the consumer should be calculated in accordance with Industry's capacity to meet the increased demand. Now if we let the figure 10 represent the financial cost of national production (including both capital and consumable goods) during any given period, and let, say, 8 represent the financial cost of national consumption during that same period, it follows that, as the total price charged for the goods produced is to be only the total financial cost of the goods consumed, this price must be eight-tenths the financial cost of their production. Descending from the general to the particular, the proper price of each individual article produced within that period is eight-tenths the financial cost of its production.

Those readers who prefer a more general approach may appreciate the following method of dealing with this question. Taking P to represent National Production and C to represent National Consumption, the argument proceeds 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 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 $x=\frac{C}{P}$.*

So we see that, by either line of argument, the price at which consumers' goods must be offered to the public if the people as a whole are to secure the product of their corporate efforts—the Compensated Price—is obtained by

* “*This Age of Plenty*,” Section 93.

multiplying the financial cost of production by a fraction obtained by dividing national production into national consumption.

$$\text{Compensated Price} = \text{Financial Cost} \times \frac{\text{National Consumption}}{\text{National Production}}$$

Quite clearly, however, sellers cannot continue to part with their goods to customers at less than production-cost unless they are reimbursed their financial loss from some other source. The third part of this threefold suggestion is, therefore, that the Treasury or other public issue department should reimburse the sellers the amount they are out of pocket by selling at the Compensated Price. But where is the new money to come from? Although a proper understanding of the previous chapters would obviate any such question, experience shows that it is bound to arise and must be answered. And answered it shall be in the next Chapter, as fully and clearly as possible.

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Having reached this stage it is perhaps rather paradoxical to assert that the Compensated Price proposal is not primarily concerned with the regulation of prices or the flow of new money into the pockets of consumers, but that its purpose is to equate our powers to buy with our powers to produce for sale. In other words, the principal object of this suggestion is to gear the power of the community to consume up to the power of the community to produce for consumption. Analogy is no conclusive argument, but the illustration of a steam governor on an engine may help to make this point clear. A governor is frequently fitted to a steam engine whereby as the speed increases, the steam is automatically shut off, and as the speed falls, more steam is automatically admitted. As a result the engine is kept at the required speed. The

governor is really employed as a controller of speed, and only regulates the steam as a means to that end. Similarly, the Compensated Price proposal is really a mechanism to ensure that our possible consumption shall be neither greater nor less than our potential production. It is only as a means to that end that it regulates the prices charged for consumers' goods.

The effect of the application of the foregoing proposal upon unemployment would (from the orthodox point of view) have a progressively beneficial effect. Price to the public being scientifically reduced, the general purchasing-power would be greater. There would be a new demand for goods, and a 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 the unemployment figures would be substantially lessened.

At the same time the nature of the demand would be modified. A new and increased importance would attach to the goods that you and I, as members of the public, want. One effect of the present lack of purchasing-power on the part of the consuming public has been to divert industrial effort from the satisfaction of people's actual needs to the creation of things that individuals as such do not require. But with extra demand coming direct from the individual consumers, the energies of industry would be reorientated. Again, as the gradual conversion of our *wants* into *claims* took place, the scramble for foreign markets would lessen. But however the character of the industrial production was changed, the effect would be to offer more opportunities of employment, and with employment to provide remuneration representing for the recipient a far higher standard of life than is financially possible to-day.

Clearly, however, with the unhampered adoption of new processes, our factories would soon be able to supply all the goods demanded without calling on the whole of our available man-power. Already productive capacity is so great that unemployment is inherent in any economic system that does not deliberately make work. The reduction of hours of labour may be a necessary first step in our reconstruction for leisure. This could easily be arranged under a Social Credit monetary technique, however difficult to achieve under the present system without creating corresponding hardships. But there is a limit below which it is neither efficient nor desirable to reduce working hours. The real problem before us is not how to share out the hours of work available, nor even how to stimulate employment, but how to remove from unemployment its ugly concomitants. And here Social Credit offers its second principle, that of Dividends for All.

"In the Richard Cobden lecture for 1933, Dr. E. Heldring, the Dutch shipowner, estimates that one hundred million people in the world to-day would have no purchasing-power at all if other consumers did not give them some of theirs in the form of either Governmental or charitable relief."*

In other words, Dr. Heldring estimates that a hundred million people in the world to-day are in receipt of no wages, salaries or dividends from industry, either directly or indirectly, and therefore part of the wages, salaries and dividends received by their fellows has to be diverted to provide them with purchasing-power. The result is merely to share and not to augment the money paid out in the processes of production. To the figure of a hundred million given by Dr. Heldring there should, of course, be added the many millions who, although in receipt of

* "*Economic Nationalism*, by Maurice Colbourne, at page 155.

some small amount of wages, salaries or dividends; have also to rely largely on Government or charitable relief. Indeed in its survey of the standard of living in Sheffield, the Sheffield Social Survey Committee state that a preliminary examination of their returns suggests that, had it not been for the receipt of social income of this nature, rather more than 16% of the working class families in Sheffield would have been below the poverty line at the time when the investigation was made.* The inadequacy of an unsupplemented wage system therefore becomes more apparent every day.

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"Dividends for All" is not a new idea, but it has of late years assumed a great and growing importance, and it is one of the two proposals offered by Social Credit to meet present conditions. On the ground of expediency, it has been found desirable that the wage system should be supplemented by non-industrial payments, such as Old Age Pensions, Public Assistance Relief, and the amounts distributed by the Unemployment Assistance Board. But many people still find it difficult to reconcile such payments with their preconceived antipathy to "something for nothing," and regard them as rather dangerous anomalies and innovations. They stress the moral and physical advantages of definite occupation, but occupation in their minds is often identical with paid employment. Social Credit recognises the value of needed work, but sees no particular virtue in work for work's sake and draws a necessary distinction between needed work and mere employment.

"It is of practical importance, as bearing on the difficulties of obtaining an alteration in the financial

* See *supra*, Section 7.

system itself, to note that the spokesmen of orthodox finance seem to assume the position of arbiters and protagonists of morals, both individual and international."*

So that what is, at base, a technical problem, is treated as a moral one, and argued by reference to an inappropriate scale of values. However, the fact remains ; and accordingly we must be prepared to show that not only are dividends on a national basis eminently desirable on grounds of expediency, but also that they are ethically justifiable.

Industrial production is the result of the intelligent combination of three factors : (1) the tools or implements of production, which we will distinguish as *capital* ; (2) mind, muscle and human energy in its widest sense, which we will distinguish as *labour* ; (3) something which we will call *the common cultural inheritance*. This last comprises the vast heritage of invention and discovery, of art and science, of physique and skill, of culture and learning, of social, political and industrial organisation of philosophy and religion, of thought and ideals, of discipline and aspiration, which have been handed down and developed by generation after generation from the dawn of humanity. Without labour, capital is powerless. Without capital, labour can accomplish little. Capital and labour together—machinery, mind and muscle—can do very little without the presence of this third factor, the common cultural inheritance, which forms as it were the background of all their activities.

The importance of the common cultural inheritance can perhaps be illustrated by a glance into the past history of the human race. Thousands of years ago there lived in Europe a people now referred to as the Cro-Magnons. Many skeletons of these people have been found, and

* C. H. Douglas, in "*The Monopoly of Credit*," at page 97.

these tell of an exceptionally tall, well-built race. Their hands were similar to our own, and quite fit for skilled work. Their skulls show that they had handsome, intelligent faces, and from the size and shape of such skulls it has been definitely ascertained that the brains of these people were as fine as our own. Scientists even tell us that if such people were alive to-day and had the educational and other advantages we enjoy, they could mix as intellectual equals among us, while in games and sports they would probably beat us.

These people, intelligent and strong as they were, lacked what we regard as even the ordinary amenities of life. Their dwellings were mere caves. Their implements were fish-bone needles and sharpened flints. They knew nothing of the metals, and to them agriculture was unknown. These things came hundreds of years later, and every step that early man took towards civilisation was a wonderful feat; he was a pioneer, an inventor. Although the Cro-Magnons had hands and brains capable of erecting houses or driving cars, they had no inherited conceptions of houses or vehicles to assist them. They were a people clever and intelligent but without any appreciable cultural inheritance. Therefore we find that according to modern ideas their "home comforts" were negligible, and they had no machines to increase the efficiency of their manual labour.

Of the three factors of production, the common cultural inheritance is quite as important as either of the others. Yet, being common to all people, it is almost universally overlooked. Capital and labour are both capable of individual appropriation, and therefore any wrangling that takes place between employers and employees as to the division of the proceeds of industry generally takes place on the mutual assumption that these two are the only

parties justifiably entitled to share, save for a proportion grudgingly yielded to the Government through taxation as payment for the national services rendered to both parties.

But the existence of a splendid heritage common to all members of the community implies that each member is a co-heir of the whole. Even the most original inventor has only added a small contribution to the ideas of thousands of predecessors, expressed in language handed down by uncounted generations of ancestors. So, according to this philosophy, each member of the community is justly entitled to share in the product of industry. Insofar as the individual is the owner of machinery or a contributor of labour, his share as a member of the community should be additional to whatever he derives as remuneration for his direct contribution to production. But those members of the community who can claim neither by right of equipment supplied nor work done should at least receive their proportion of the increased wealth of the community due to them as joint inheritors of the accumulated resources of the past.

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Not by any means for the first time we must remind ourselves that although for convenience of examination our economic organisation can be divided into two sub-systems—the producing system and the consuming system—these two are really interdependent. Production is useless without consumption. Goods may be produced in quantity, but if for some reason those who want them cannot obtain them, such goods are left on the manufacturers' hands, industry ceases to produce more, and stagnation ensues. Therefore industry needs the co-operation of the consumer, who, as such, has a very important part to play. In the

political economy of the past and, unfortunately, of the present, attention is almost solely devoted to the productive system. But the consuming side of our economic organisation must necessarily feature more prominently in the political economy of the future.

The late Eimar O'Duffy, who will for long be lamented and at the same time affectionately remembered as one who brought to the study of economics a mind penetrating and humorous, unfettered by generally accepted notions, reminds us in his book "*Life and Money*" that it is necessary to look at the economic system as a whole and not merely at each part individually, and he describes the type of mind which sees only one-half of the picture as Sisyphist or Procrustean, according to which part of the economic organisation is given undue prominence.

"Sisyphus in Greek mythology, was condemned, in punishment for his sins, to spend eternity in rolling uphill a huge stone which rolled down again as soon as it reached the top. His sterile labours furnish an excellent symbol for the policy of 'making work' instead of distributing the product. . .

"In Greek legend, Procrustes was a robber who used to entice travellers to his house, and then fit them to his bedsteads by stretching their limbs if they were too short or cutting pieces off if they were too long. His name, therefore, furnishes a symbol for those who would solve human difficulties by adapting man to his institutions instead of adapting his institutions to the use of man. . .

"The Sisyphist looks at a teeming population and says : 'How awful ! What a lot of hands to find work for !' The Procrustean looks at them and says : 'How terrible ! What a lot of mouths to be filled !'

"Both, you see, only look at *part* of a man. It never occurs to them to think of him as a whole, and to see that if he has a mouth to fill he has a brain

and hands to do it with. A man in their eyes is not an asset but a liability. He is no longer the heir of the ages but a foundling on the doorstep of an engine house."*

Unless, therefore, we pay proper attention to the man with a mouth to fill—realising at the same time that there are men with hands and brains waiting and anxious to fill it—we shall be falling into the cardinal error of Procrusteanism. Will Dyson informs us, in appropriate if unorthodox analogy, that

"The unproductive have an industrial function—they are scavengers—they keep the machine free to run by cleaning up the waste product. They empty the udder of the cow of industry, failing to do which means a drying up of the milk supply."†

It is believed, therefore, that the distribution of 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, is amply justified.

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It is quite certain that many people, even if they are ready to countenance the payment of National Dividends as not only expedient but ethical, will object that under such a system no one would be found willing to perform the more menial tasks. As they almost invariably put it, "Who would do the dirty work?"

There would, of course, be less dirty work to do. Science has rendered industry more productive, and can also render it more attractive. Many jobs which are now done by hand could be done better by machinery, and would even to-day be done by machinery if the question

* At pages 44, 57 and 79.

† In "*Artist Among the Bankers*," at page 172.

"Does it pay?" did not persistently arise, and if also there was not the ever-present fear of displacing men and so interfering yet again with the distribution of goods. Furthermore, it must be remembered that man is a creature replete with creative instincts. It is not work that men dislike—they dislike boredom far more. But they have a natural dislike of compulsion to work unless they are at the same time imbued with a vision, and a sense of participation in achievement. At the present day it is unfortunately considered smart by many people to do as little work as possible in return for as much remuneration as they can obtain, but where this attitude exists it almost inevitably reflects faulty environment and training—a mental maladjustment brought about by the prevailing economic conditions.

The removal of an economic compulsion to work does not remove the natural inducement of man to follow some useful occupation. Handicraft would flourish as a necessary adjunct to the machine production of the more essentially material wants.

"A primitive simplicity of life does not accord with the flowering of the intellect. Variety—of food, clothing, surroundings—is essential to the sensitive modern, and with it a new order of simplicity, consisting in harmonious complexity. Art affords guidance on the dangerous road from mere addition of wants and powers to a poised mastery, in which form, colour, sound, texture, in infinite variety, become at once expressions of the new soul and solvent of the inevitable stress accompanying her heightened sensibility."*

Man would, therefore, strive after higher expressions of life, unsatisfied by the mere mass production of material requirements. In time, indeed, the provision of food, warmth, and shelter in its more rudimentary forms would

* W. T. Symons, in "*The Coming of Community*," at page 159.

become almost a subconscious activity of the race ; a great and beneficent contrast to the important position it occupies at the present time.

"According to biologists, some of the earliest forms of life devoted most of their energies to developing a satisfactory breathing apparatus. Their strivings went on for we don't know how many ages until at last their efforts were rewarded and the art of breathing perfected. The lucky organism consequently became free to devote itself to other activities, leaving the meniality of breathing to look after itself, which it duly did, functioning semi-automatically. . . One stage would consist of growing a thumb ; another of standing on two legs in order to use that thumb. Now while these feats took almost inconceivable time and effort, yet once they were accomplished the human animal was able to forget all about the struggle they had entailed, and he was free to tackle more complicated affairs and satisfy higher ambitions . . The result is that we, his descendants, are able to busy ourselves in a thousand other ways . . . even the stupidest of us having performed with consummate ease in a few months in the womb the evolutionary labours and spasms of an aeon. Now, great steps forward though these things were, none of them was the last of the journey ; laurels were not yet."*

The early strivings of the human race were towards the provision of the very simplest requirements—food, warmth, shelter ; and now that these can be provided in abundance, the striving of the race as such is (although perhaps unconsciously) towards a fuller expression of man's individuality. The provision of food, warmth and shelter must become semi-automatic ; people must be free as far as possible to achieve those higher things of which they feel themselves capable when relieved from the monotonous toil which destroys the individuality.

* Maurice Colbourne, in "*Economic Nationalism*," at page 79.

"Tradition based on long established social habit is the most powerful force in making the present economic system work. It is reinforced by the motives on which the economists in their account of the system have dwelt to a far greater extent, but these motives of personal acquisition, or of fear of the consequence of loss of income through loss of employment, are secondary and of far less influence upon the minds of the great majority. They count constantly in the minds of a limited class from which the active leaders of business are largely recruited ; and they act intermittently upon the mass by checking through fear the tendency to revolt against hard conditions. They are not, and have never been, the main driving force of the productive system."*

Under a system of dividends for all a new tradition would arise : a more healthy tradition—a tradition suited to a power age, replacing a tradition suited to an era of comparative scarcity. This new tradition would itself provide the strongest possible motive force.

"For man there is no condition so desperate psychologically as that of imposed lack of occupation. An unimposed—a chosen lack—self-willed idleness—has few psychological drawbacks, but the one imposed from outside is the basic condition of all social punishments. It is a cruelty, and a monstrous cruelty. It is the chief element in the *malaise* of the world to-day."†

Man cannot remain idle for long. Man is essentially an active creature. Watch the professional man in his "retirement" or the school boy with his hobby. Who so unhappy without congenial employment for hand or brain ?

Further, under a system of National Dividends, there would still remain a strong inducement—as distinct from

* G. D. H. Cole, in "The Intelligent Man's Guide Through World Chaos," at page 584.

† Will Dyson, in "Artist Among the Bankers," at page 84.

compulsion—to serve in workshop, field or factory. As persons contributing directly to production would be entitled to payment for their services, they would generally be able to afford a higher standard of living and comfort than those who engaged in no remunerated form of “work.” This effect would, of course, be accentuated if there was a falling off in communal production, automatically entailing a decrease in the value of the dividend. Finally, in a community enjoying economic emancipation, the man who performed no service would be the nonentity ; service would gradually become recognised as the mark of aristocracy. 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 that rendered a genuine service would be regarded as other than honourable.

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“We already give Old Age Pensions, Widows Pensions, Pensions to the blind and the disabled. We do not expect these people to work for their money even as it is, and they are, on the other hand, people with especial claims on our pity. Why should not their pensions be greatly increased? It could not be argued that to increase such incomes would be to encourage idleness, and nobody could grudge them an increased affluence. An increase in the Old Age Pension would bring an increase of happiness, not merely to the old, but to everybody, for everybody expects to be old one day and is haunted his whole life through by the anxiety how he will support himself and his dependents when he is past work.”*

The above quotation is typical of the thought of many reformers who, rather than admit the need for a thorough system of national dividends, would prefer that the present

* Christopher Hollis, in “*The Breakdown of Money*,” at pages 119-120.

social services should be increased and extended. It is possible to have considerable sympathy with this point of view, as also with the opinion that a more general reduction of working hours all round would be a useful first step. Yet merely to increase pensions can hardly be supported except as a limited basis to commence with—a somewhat arbitrary restriction on the number of persons to receive the dividends. Such increase and extension would no doubt be very beneficial, but have the old, the widows, the blind and the disabled any better claim to a share in the products of the community than those persons whose labour is, for other reasons, surplus to present requirements? Are the sighted, undischarged unemployed to be kept at a physically unnecessarily low standard of living lest they should find themselves as well or better off than those who are actually working? And if it is undesirable to impose an unnecessarily low standard of living for such a reason, is it not also foolish to deny to those who work either proper wages or a supplemental dividend to enable them too to enjoy life in a manner commensurate with the capacity of industry to meet their demands? In fact, however one looks at the question, whether from the point of view of expediency, from the point of view of morality, or from the point of view of common fairness, the case for National Dividends is completely made out.

Here, then, we have a two-fold mechanism to deal with the present economic riddle. The Compensated Price and National Dividends—neither alone, but both working together in perfect harmony—will give a financially accurate reflection of the physical realities of the situation.

Chapter XI

QUESTIONS AND ANSWERS

Where is the Money to Come from ?—Is not Social Credit Inflationary ?—The National Credit Office—The Operation of the Price Discount—The Discount Voucher—Cancellation of Surplus Money—Compulsion and Fraud—National Money—The Position of the Banks.

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By this time, no doubt, a considerable number of difficulties will have presented themselves. Fortunately the questions which usually arise fall naturally under one or other of the following heads. Where is the money to come from ? Is not the whole scheme merely a form of inflation ? Who would calculate the amount of new money from time to time required. How would the new money be actually put into circulation ? How would the new money be cancelled ? How would people be compelled to sell at the Compensated Price ? How would fraud be prevented ? What about the banks ? What about our overseas trade ? How are you going to put it across ? What about Alberta ? The reader who has followed the general argument so far will no doubt be able to supply most of the answers for himself. To leave it there, however, would be to beg the questions, and we shall now try to deal with each in turn.

First then, where would the money come from ? The increasing power of the people to make and distribute what they require is, as we have seen, a reasonable and sufficient basis for the issue of new claims to goods and services. But the phrase "new claims to goods and services" is really only a longer way of saying "new money,"

so that the ever-increasing power of the community to deliver the goods and services which its members want is a proper basis for the creation of the new money from time to time required to effect a proper distribution. 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 (if any) to its shareholders, so the National Wealth Account should from time to time be written up. The nett increase in real wealth since the last balance would represent 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 in such new goods and services the basis of the money needed to finance the compensated price and the national dividend.

It may be thought that such a fund would prove inadequate to meet the calls upon it. In face of the "positive acceleration of Science" going on all around and all the time, this fear seems to be without adequate foundation. If nevertheless it were felt desirable to supplement the fund by taxation, it must be remembered that there would be no need to tax for Public Assistance, Unemployment Relief, Old Age Pensions or National Insurance, which under a comprehensive scheme of national dividends would be rendered unnecessary. It must also be borne in mind that if the money system were made to reflect the power of the community to supply goods, the weight of taxation would, owing to the vastly increased national income, seem trifling compared with the burden at the present day laid upon our artificially impoverished citizens.

Of course, even at the present time there is some tendency for the amount of money in circulation to be increased with the growing real wealth of the nation.

But there is no connecting link, and the two do not keep in step. Under the foregoing proposals, however, instead of the necessary new money being obtained somewhat fortuitously and by means which create an equivalent new debt to the banking system, the issue of new money would reflect the additional real wealth, and the State would create the money required to achieve a proper equilibrium between power to supply and power to demand goods and services. A proportion of the money would no doubt be printed, as were the Treasury notes that won the War, and the balance would doubtless be in the form of "promises to pay" redeemable by the State in notes when the need arose.

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But would this not be inflation? "Inflation" is a word frequently used by people who do not quite know what it means or implies. Fear of the unknown is always one of the greatest fears, and many people who are afraid of inflation have but the vaguest idea of what is meant by that terrible expression. The true meaning of inflation is an expansion of money carried out in such a way or to such an extent that there is an undue rise in the general level of prices. Expansion of money is not by itself inflation: indeed, failure to expand money with the requirements of industry and with the growth of population is tantamount to deflation. Yet many people have grown to regard monetary expansion and inflation as identical, a fact to which Major Douglas alluded in his evidence before the Standing Committee on Banking and Commerce of the Canadian House of Commons in April, 1923, when he stated:

"The chief of these (orthodox contentions) is that the more money you issue the higher prices will range. So long as you insist that this is what you might call

a law of nature, so long is there no exit from the trouble in which we find ourselves. . . But they are not axioms and laws . . . they are merely rules, just as you have the rules of a game or the rules of a workshop ; and just as the rules of a game or the rules of a workshop are amenable to change in the interest of the players, so are these rules which we are inclined to accept as axiomatic."

Co-existent with this horror of inflation there is a general agreement that prices must be raised to and maintained at "a remunerative level" if industry is to survive. The most obvious way of raising prices is by inflation, as even (or especially) the most orthodox economist will agree. But, curiously enough, he will seldom allow that regulated monetary expansion should be undertaken with this deliberate intention and result. Consequently the problem of raising prices to a remunerative level is at the present time tackled differently. Very substantially increased money supplies being unthinkable, decreased supplies of goods must be the means of inducing higher prices. Hence follow organised restriction of output, quotas, rationalisation, minimum price regulations, and the destruction of needed goods. If higher prices are needed it seems that they must not be obtained by the obvious method. We are still blasphemously childish in our belief that what is pleasant is almost necessarily bad for us, and that what can be easily secured is "too good to be true."

If we ask why the raising of prices to a remunerative level is considered essential for the survival of industry, we shall be told that unless manufacturers can obtain higher prices for their goods it does not pay them to produce, for they cannot recover their costs. Higher prices are therefore looked upon as the means of extracting more money from the public without incurring more expenses

in production. But seeing that the aggregate spending-power of the public is limited by the amount of wages, salaries and dividends distributed in the course of production, merely to raise prices cannot enable the industrialists to recover a larger total : they can only recover in the aggregate as much money as they distribute in the aggregate, but will do so in return for fewer goods. A falling off in the bulk of goods sold will in turn mean a falling off in wages, as fewer hands will be needed, and a further diminution in demand for goods. A policy of "higher prices" without at the same time a policy of monetary expansion is not likely to achieve any permanent benefit to industry or to the community.

Be that as it may, popular and unreasoning disapproval is accorded to any deliberate increase, through monetary expansion, in the aggregate amount from which industry can recover its costs. There is, however, an essential difference between a moderate and regulated expansion of money, based on the requirements of industry, and an excessive and unregulated expansion, designed to abolish internal debt (as in post-war Germany) or (as in post-war Russia) to destroy the existing, capitalistic system.

The Social Credit proposals certainly visualise a deliberate expansion of the money supplies. But instead of expanding or contracting the currency and then attempting to prevent prices from rising or falling—in the one case neutralising the benefit, and in the other case causing industrial stagnation—they begin with the Compensated Price. The monetary expansion that would take place under Social Credit would be used as the means of lowering prices to consumers, and increasing their effective demand for the products of industry.

Having said so much, we must yet again emphasise the fact that the aim of Social Credit is not to regulate prices primarily to prevent inflation, but with the intention of equating our possible consumption to our capacity to supply goods when, where and as required. Inflation is not desired by the advocates of Social Credit : neither is it dreaded.

(82)

Who would calculate the amount of new money from time to time required ?

The determination of the numerical value of the price-factor and of the amount available for payment of national dividends is not a matter for the politician or the financier. It is a purely technical matter to obtain a proper balance between the power of the community to deliver the goods and services its members require and the potential demand of its members for such goods and services. The *ratio* of national consumption to national production can be determined with quite sufficient accuracy, and, being a ratio, it is immaterial in what units the calculation is made. Even the periodic returns made to the Board of Trade at the present day, incomplete as they probably are, are sufficient to enable a reasonable approximation to be made. No doubt, however, it would be thought desirable to establish some national statistical authority, charged with the duty of calculating scientifically and impartially the ratio of national wealth consumption to national wealth production. This National Credit Office would ascertain the numerical value of the price factor, and periodically publish any adjustments found necessary.

It is not essential here to go into details relating to the composition of this body of scientists, or the terms for

which and upon which they would hold office. It is sufficient to note that this body would be as free from political or other influences as is the National Physical Laboratory at the present day. A yard is the same length whatever the complexion of the Government in power, and the ratio of national consumption to national production is an ascertainable figure to be determined with the same impartiality.

No doubt the National Credit Officer would also advise the Government on the amount of money to be issued (*a*) as national dividends and (*b*) in discount on retail prices. The higher the national dividend, the higher would be potential consumption, and therefore the smaller the discount that would be appropriate. Absolute accuracy would be aimed at, but probably seldom achieved. This would not be a vital matter, as adjustments would be made with reasonable frequency, and any slight error discovered in a past calculation could be compensated subsequently.

It is quite impossible to foretell the actual figures that would be recommended, but as a commencement it is not improbable that some reasonably small national dividend would be paid, accompanied by a price-factor in the region of $\frac{3}{4}$ —equivalent to a price-discount of 25%*. It would most probably be thought appropriate to retain the national dividend at the same figure for a considerable length of time, periodical adjustments in the price-factor rendering the dividend more or less valuable in accordance with the ascertained figures for national production and consumption.

* Mr. Alan T. Goldsborough, in his Bill H.R. 7188 before the American Congress, provides for an initial discount of 15%. Cf. Appendix G.

(83)

It is only natural that many people should wish to visualise the Social Credit proposals in operation before committing themselves in support, and for the benefit of such people schemes have been devised illustrating possible methods of application. It must be emphasised, however, that such schemes are illustrative only. Until the circumstances are known in which Social Credit will have to be applied, it is useless to put forward concrete administrative proposals. Such proposals lead inevitably to discussion over possibly quite irrelevant details, doubly futile in those cases where circumstances will probably have changed by the time Social Credit has been accepted as a satisfactory policy.

Indeed, the compensated price and national dividends discussed in the last chapter together form a policy rather than a definite scheme, and, in common with other policies periodically laid before the people for approval or rejection, those called upon to decide are more concerned with the probable effect of the policy than with details of practical administration—"Will such a policy deliver the goods?" not, "How exactly shall the policy be applied?" The position was summed up in "*This Age of Plenty*"* Thus :—

"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 needs 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

* In Section 95.

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 dual policy of the compensated price and national dividends as a means to national and international prosperity do not yet concern themselves overmuch with the precise form of their ultimate application. They are more concerned with obtaining a demand for the acceptance of their policy. When the time comes, the actual form and method of adoption must be that best suited to the particular needs of the industry or community seeking to apply Social Credit.

But as a policy comes nearer to adoption, the need for a definite scheme of application becomes greater. Ten years ago, when the adoption of Social Credit appeared remote, it was interesting to discuss methods of application for the purpose of extracting underlying principles. Now that its adoption in the near future has, in more than one country, entered the realm of practical politics, a more definite idea must be formed as to how Social Credit should be put into operation.*

Like many other policies, the compensated price could be worked in a variety of ways. A number of such ways have been described in Chapter XV of "*This Age of Plenty*," to which the reader is referred for a more exhaustive account. Broadly speaking, however, the methods suggested fall into two groups. There are first of all the methods which visualise the customer purchasing what he or she requires in the ordinary way, but paying for it at not more than the compensated price, and the seller in due course making a claim for reimburse-

* For a reference to Social Credit in Alberta, see Section 90.

ment from the appropriate authority of sufficient money to cover the difference between his basic price (that is, cost price with the addition of a permitted commission on turnover) and the compensated price. So far as a purchaser is concerned, the case presents no difficulty. All he realises is that his money goes further. Nor does the claim for reimbursement involve calculations more difficult, or book-keeping more involved, than those met with in the simpler income tax repayment claims of the present day. Special cases seem, however, to arise when payment is deferred and when the object sold is of a trivial amount.

In the case of a person buying goods but deferring payment—a state of affairs which will not, perhaps, be quite so common when there is a more adequate supply of money—it is possible that the National Credit Office might have announced a variation in the price-factor between the time of purchase and the time of payment. The amount to be paid by the customer, however, would be fixed at the time of the sale and would not be affected by subsequent variations in the price-factor.

The operation of the price discount in the case of a penny box of matches presents a little more difficulty. If the basic price of the box is a penny, and there is a price discount of 25%, the difficulty could often be overcome by selling two boxes for three halfpence, although this is no solution in the case of a person who does not want two boxes! And again, a variation in the price discount from, say, 25% to 20% would be hardly perceptible in the case of a single box and prices could hardly be adjusted to meet the change. It seems that the old legal maxim "*De minimis non curat lex*" will have to apply to these small transactions. At any rate, any contemplated administrative difficulty in arranging for the sale of a box of matches at the *exactly* appropriate price should

not be allowed to interfere with the adoption of the policy of the compensated price if it is in other respects likely to be beneficial. No doubt some unexpectedly simple solution to this little problem will be found, for where there is the will there is usually a way.

(84)

Under the other group of suggestions for operating the compensated price, instead of an article being sold at the appropriate discount, it would be sold at what we have called its basic price, that is to say, at the financial cost of its production with the addition of a definite percentage by way of profit. But because the seller has accepted the conditions which entitle him to participate in the scheme, he is empowered to issue a certificate that the article has been sold at a price not exceeding the basic price and that he has received payment therefor. According to the current price factor, this certificate has a definite value to the customer, and when the latter next visits his bank he pays it in like a cheque. The bank credits his account with its value—namely the difference between the basic price and the compensated price—so that on balance the customer pays for his article at not more than the compensated price. The bank, however, has now incurred an increased liability, and at the end of an agreed period it will submit to the Government this and the other vouchers it has received in similar circumstances. The Government will thereupon grant a credit to the bank to cover the bank's increased liabilities to customers. This Government credit will probably take the form of "promises to pay" to the bank Treasury notes or other forms of legal tender on demand, but it is quite unlikely that the bank will wish to call upon the Government to honour any great quantity of these promises except in very ex-

ceptional circumstances. It will not wish to have its vaults crammed with legal tender whether in paper or any other form : it only wants a certainty that it can obtain sufficient legal tender if ever it is called upon by its customers to honour its own promises to pay.*

When considering this second method of operating the compensated price proposals, it may be helpful to remember that there is already in existence a mechanism which could, with great ease, be adapted for the purpose of price-regulation. The Co-operative Societies in this country have a large membership, and yet the purchases of each member, however small, are recorded individually. Periodically the Societies calculate not only the total of their sales and purchases but also the total of the purchases of each of their members. There seems to be no great difficulty in ascertaining accurately the amount of these individual and total purchases, and in calculating and distributing the appropriate dividends. If the national price-factor for the period was determined, there would be no difficulty in arranging for the dividend at present issued by the Co-operative Societies to their members to be augmented by the appropriate amount—so that where a customer at the present day gets 1/6d. in the £ on his purchases he would then possibly receive 6/6d. The Government would reimburse the Societies directly, in much the same manner as in the last paragraph we visualised the Government reimbursing the banks.

We have now seen how the compensated price might be operated. As we have already pointed out, there are other ways, but those mentioned appear to be typical. Special reference should, however, be made to an altern-

* See also Appendix G for an alternative scheme for the application of the compensated price. (The Goldsborough Bill).

ative method outlined by Mr. A. W. Coleman in the "*New Age*" of the 13th February 1930, which is set out and discussed in Section 99 of "*This Age of Plenty*."

It has been natural that a discussion on the adoption of Social Credit should deal at greatest length with the somewhat unfamiliar conception of the compensated price. National Dividends present a less unorthodox appearance, and it would probably be found most convenient to distribute them through the organisation already existing in the Post Office, rather like an extended and yet simplified system of Old Age Pensions. There would be no need to make it a weekly distribution in the case of those who preferred to receive their dividends monthly, quarterly or yearly. That would simply be a matter of organisation, and to carry out the work there would only be needed a proportion of those now engaged on enquiring into the ages and means of applicants for Old Age Pensions and Unemployment Assistance. The accountancy would not be so formidable as appears at first sight, and the armies of accountants and others now engaged in seeing that in this age of plenty no one gets a penny more than the financial system allows would find themselves at liberty to assist.

(85)

How would the new money be cancelled? Here we reach a matter on which many people, attracted by the philosophy and proposals of Social Credit, find themselves in a genuine difficulty. The amount of the new money which Social Credit proposes to put into the pockets of consumers, in order that they may claim and industry may deliver the goods it is physically able to produce, is so large that persons accustomed to the figures of present-day national accountancy are unable to accept them as

credible. In just the same way our great-grandfathers would have deemed inconceivable the present astronomical figures of the National Debt.

It will no doubt be granted that so long as the amount of new money from time to time introduced into circulation is no more than equivalent to the simultaneous net expansion in the real wealth of the community, the question of cancellation will not arise. A continually expanding mechanism is required to deliver such goods and services to the people. But it will no doubt be objected that the amount of money which can justifiably be introduced into circulation on such a basis will not be enough to finance an adequate system of national dividends and price-discount. Most advocates of Social Credit appear to consider that the amount of new money required to balance our continually expanding productive capacity will be amply sufficient, but it is well to recognise the existence of genuine fears to the contrary, and to take such precautions as are necessary to allay them.

The first £2,000,000,000 or so of new State money put into circulation, when received either by retailers as reimbursement for discounts or by the general public as national dividends, would no doubt be paid into various banking accounts. As much as went to pay off overdrafts would be automatically cancelled—both debt and credit disappearing together. It is only when the existing debts to the banking system have been liquidated that the question of cancellation becomes in any way difficult. However, when one recalls the tremendous expansion of productive capacity occurring at the present time, the expansion which has taken place in the past, and the enormous leeway to be made up, there would seem to be no practical difficulty in the proposal put forward by Major Douglas to begin with a price discount of 25%.

Even if the result was, as Mr. W. R. Hiskett fears, to double the amount of our money within a year—a computation which one is inclined to doubt—it is more than probable that even at the present time industry could double its output of things that consumers actually desire if there was the corresponding effective demand, and certainly the stimulation afforded by an adequate effective demand would render industry at the end of twelve months able to supply more than double its present output.* By way of making a gradual beginning, however, a lower first discount might be declared. Subsequent price-factors would be greater, less than, or equal to the first according to the actual effect on production and consumption of the working of the compensated price and national dividends.

However, if the inauguration of a price factor combined with a moderate national dividend actually did cause the demand for goods to rise relatively to the capacity of industry to supply (including in the term "capacity" not only ability but also willingness to supply) the price-factor would be automatically raised, and would reach unity when the demand for goods equalled the capacity of industry to supply them. In extreme cases consumption might temporarily outstrip production, when the price factor would become greater than unity, resulting in a "negative discount."

If it is once admitted that so long as production outstrips consumption, there is need for more money to enable effective demand to keep pace, one is logically forced to admit also that there is no call for cancellation of money already in existence until production is outstripped by consumption or until people have in their pockets money which they cannot spend because the goods are

* See Section 99, *infra*.

not there. If ever this happened, a decrease in the amount of money in circulation could reasonably be demanded, and the "negative discount" would then correspond to a sales tax. The money collected by means of such negative discount would be withdrawn from circulation.

It is well there should be such a safeguard, even though it may never be actually required. A sufficiency of money in the hands of consumers would so stimulate industry that it would probably be a long time before consumption caught up with production. But if ever it did, the question of cancellation would arise, and the machinery would be there to deal with it.

(86)

At the back of the minds of many people is an idea that economic changes can only be brought about by some measure of compulsion, and therefore it is only natural that they should ask how retailers would be *compelled* to sell at the compensated price. Perhaps one of the more remarkable features of the Social Credit suggestions is the small amount of compulsion needed to ensure their smooth running. Nowhere is it suggested that the trader should be compelled to join in the Social Credit scheme, although a very strong inducement would be held out to him to do so. A trader accepting the conditions of entry into the compensated-price organisation would be able to offer to his customers the advantage of purchase at a substantial discount without loss to himself. The trader who wished to remain outside the scheme would be allowed to remain outside, but to benefit thereby he would have to sell at a price which included all financial costs of production, including his permitted percentage of profit, and an additional profit. And he would have to find customers for his goods at this price.

Closely allied with this notion of compulsion is the fear of fraud. How would fraud be prevented? In answer, it may be first of all pointed out that the inducement to commit a fraud would not be so strong in an atmosphere of plenty as in a state of scarcity whether real or artificial. The mentality of abundance is different from the mentality of privation. The outlook of the mastiff is not that of the wolf or the jackal. The inducement—and in some cases one might add the economic compulsion—to try and obtain a larger proportion of what is available than the rules of the present system allow (even at the expense of others, themselves also victims of artificial scarcity) would be far less.

In the next place, although it may seem strange to say so, it would not really be so vital a matter, when goods were in plentiful supply, if some people did get more than their strictly proper share. Even to-day there is much division of opinion as to what is a fair share, and it is not universally conceded that the present method of distribution, through wages, salaries and dividends is either equitable or workable. So that when explaining how people would be prevented from getting more goods than the then financial system would warrant, we must not be considered to hold it a matter of supreme importance.

Naturally, ordinary business acumen would be necessary. Before enrolment as a retailer permitted to give to his customers the benefit of the compensated price, a shopkeeper would have to enter into certain obligations. He would have to undertake to allow his books to be inspected—no greater hardship than the examination for income tax purposes to-day. He would have to agree to accept a fixed percentage of profit (or what is the same thing, a fixed commission on turnover). And no doubt there would be other obligations which he would be called

upon to undertake if it were found desirable in the public interest.

At the present time fraud is as far as possible prevented, and punished when found. So it would be under a Social Credit regime. If fraud can be prevented and punished to-day, it can be prevented and punished then. But probably there will not be so much to prevent, and still less to punish.

(87)

The banks would not be "abolished" as some people seem to suggest. Rather would they be retained to continue their useful services as repositories of the people's money and as most efficient debt-collectors. What is good in the existing machinery must be retained. But monetary policy must not be left in the hands of the banking houses.

This raises a difficulty. The power of the banking system (including the Central Bank) to create "promises to pay" is only limited by the amount of legal tender at its command, and it may be feared that any substantial increase in legal tender—or in Government "promises to pay" legal tender on demand, which would amount to the same thing in practice—would give to the banking system the power to expand the amount of its "promises" to a possibly dangerous extent. Many followers of Major Douglas see no harm in this, believing that so long as the amount of money on the buying side of the market is adequate, no complications can arise from further money introduced by the banks at the producers' end. They claim that any undue stimulation of consumption would soon find its reflection in a higher price-factor or even in a negative discount or sales tax. Probably, however, this view is unduly sanguine. If there is to be a proper equation between the money in circulation and the power to deliver

goods, there should be only one controlling authority, and that authority should be the State.

As a first step in monetary reorganisation the Government should appoint a date from which it would assume full responsibility for all notes outstanding. Bank notes would be replaced by Treasury Notes, and there would be a reversal of the process carried out in 1928 when Treasury Notes were temporarily deemed to be bank notes, and were shortly after replaced by notes printed for the purpose by the Bank of England.

Even when this had been done, the issue of additional legal tender by the Government would still leave it possible for the banks to use it as the basis of additional "promises" up to at least ten times its amount. An issue of national money of an amount fully justified by circumstances might become the basis of monetary expansion quite out of harmony with the requirements of the situation. It would be no solution for the Government to issue as legal tender only a fraction of the new money from time to time required for there would be no certainty that the banks would expand their promises in proportion, and if they did, such expansion would not necessarily increase *consumers'* purchasing power until it had passed, through industry, to the pockets of the people. Besides, why should the people rely on the banks for nine-tenths of their money? The creation of new money by the banks is at the same time a creation of new debt: it bears interest by reason of its very existence, and on the way to the pockets of the people it creates as many new costs as it subsequently cancels. The creation and variation of the whole of the community's money (of which currency forms but a small part) should be the prerogative of the State. What then about the bank-created money already in existence? The amount is considerable (over £2,000,000,000) and some

people think it should be wholly replaced by legal tender. It seems better, however, to accept the situation, and to authorise the retention of a "fiduciary issue" of "promises" of definitely limited amount, in order to permit of a change over with as little friction as possible. It is accordingly suggested that the amount of banks' liabilities to depositors at any time uncovered by legal tender in their possession should be by law established at its present figure. The result would be that the total amount of money in circulation would afterwards vary only with the action of the issue department of the State and to the same extent.

There would have to be reasonable elasticity in enforcing this obligation, and probably the most convenient method would be to enact that the banks should pay a definite and substantial taxon all excess or deficiency of uncovered promises." The State would only be concerned with the aggregate variation, and the allocation of the "uncovered promises" between the banks themselves could be fixed by a joint committee appointed from their own number.*

(88)

At the present time the greater part of bank earnings is derived from the interest received on loans granted to customers and from investments. This interest supplies an income normally sufficient to cover all working costs, to allow of the payment of a smaller rate of interest to depositors, and to provide what appear to be substantial profits. Additional revenue comes from bank charges on turnover and from commissions. As the earnings of the banks would be adversely affected by the suggested limitation of their power to create money, and in view of

* It must not be inferred that Major Douglas necessarily concurs in the views expressed in this Section.

the very useful services the banks perform and would increasingly be called upon to perform, it would be natural for the banks to reduce immediately the interest on deposits or even cease to allow it, while in course of time they would no doubt make a small charge for keeping their customers' accounts. This would be quite reasonable, seeing that the banks (being obliged to keep pound for pound of legal tender against their liability to depositors in excess of the stipulated "fiduciary" limit) would find deposits no longer a basis for profit-making but rather in the nature of a responsibility. It might even be considered desirable to provide that a subvention based on the amount of legal tender held by the banks should be paid to them annually by the State out of the authorised issue of new money. (But *quaere*).

Before there were banks as we know them to-day, people with valuables or money would often place them with a goldsmith or "banker" for safe keeping, and for this service the depositor paid. It is only because of the opportunities for profit open to bankers through lending or investing the money placed with them that the practice of giving interest to attract deposits has grown up. This practice is not universal. In London to-day interest is not paid by the banks on current accounts, but money is nevertheless paid into the banks because (1) nowhere else is so convenient or safe and (2) customers appreciate the facilities afforded by cheque payments. With more money in circulation and the anticipated growth of industrial and other activities there would (for the self-same reasons and irrespective of interest or commission) be more and more money paid into the banks. At first, perhaps, a refusal of interest on deposits might result in some withdrawals for the purpose of making loans or investments elsewhere. But the recipients would certainly find it convenient to

redeposit the money within a short while. The Government itself could do much to encourage the use of cheques, so that there would ultimately be far more money deposited with the banks. Probably the effect would be to increase the number and (at first) reduce the average size of bank accounts. The size as well as the number of bank accounts would increase rapidly as the real wealth of the country was reflected in an increased circulation of money. At the same time there would be no inducement to leave money lying "idle" at the banks, and there would be more complete utilisation of the increased spending power available.

Chapter XII

FINAL THOUGHTS

Overseas Trade—Aberhart and Alberta—Ensuring Needed Imports—"Moral" Objections to Social Credit—Science, Religion and The New Economics—Manual Workers in the Social Credit State—The Upper Classes, Artists and Pioneers—The Position of Women—Your Responsibility.

(89)

But, it will be asked, what about our overseas trade ? This important question is often asked, we fear, not with a genuine desire for information but in the hope that it may prove an unanswerable query. The difficulty of answering this question satisfactorily is frequently due to the fact that the questioner himself does not know sufficient about international transactions to be able to appreciate the explanation. However, it must be assumed that the question is asked in all good faith, and we must do our best to answer it.

The first point to emphasise is that international trade is still essentially barter. By general consent, gold has been and still is largely used to measure, and occasionally by its transfer adjust the balance of trade. But gold is only a commodity. The trans-shipment of bullion is not payment in money, but the delivery of a universally acceptable commodity in return for other goods. Of late years, indeed, the wavering tendencies of many currencies and Governmental restrictions on foreign exchange have in some instances caused a return to the simple practice of exchanging one commodity for another.

An example of this was reported from Canada when Crosse and Blackwell (Canada) Limited, of Toronto, a

branch of the British jam manufacturers, arranged for the money received by them from wholesalers and retailers in Western Canada to be deposited in local branches of Canadian banks to be used immediately to purchase Western Canadian wheat. Cases of more direct barter have been reported from European countries where foreign exchange is lacking to purchase foreign products. The state railway administration of Finland contracted with a British coal company to barter wood for coal. The coal company agreed to deliver 39,400 tons of coal in return for 10,000 cords of props to be used in the coal mines. An arrangement was also reported whereby Germany arranged to supply machines to Balkan governments and take payment in Balkan products.*

Whether the barter is carried out so obviously, or whether it is disguised by the terminology and veiled behind the machinery of finance, what actually happens is that payment for the goods and services of one country can in the long run only be made with the goods and services of other countries.

But it is not legitimate to conclude from this that all trade (internal as well as external) is barter, and that all goods brought to market are at the same time supply and demand for each other, so that there must always be a sufficiency of purchasing power to buy the goods and services available. This is a common mistake of those people who have not yet appreciated the difference in this respect between to-day and a hundred years ago, and the followers of Henry George, in particular, seem prone to accept this fallacy as a self-evident proposition. It is quite true that between different nations with different currencies, international trade is essentially barter, facilitated, or

* *The Christian Science Monitor*—11th August, 1932.

even occasionally hampered, by the foreign-money-exchange machinery. But between individuals in the same country barter is the exception and is, in fact, impossible under the present commercial organisation except in the most limited way. As we saw in Section 19, goods and services are to-day produced in order to be exchanged for money, and money is exchanged for goods and services. These nowadays are two separate transactions, and not merely a kind of double barter. The effect on our trade and commerce of a plenty or a scarceness of money is an undeniable demonstration of this truth.

The application of scientific principles to the money system of any country is a matter of making an adjustment in its internal money mechanism. External Trade is barter, whether direct or indirect. It follows then that so long as the money tokens of a country function adequately as titles to goods and services, the precise basis on which its internal money system is regulated is not very material—a thought we must develop in our next Sections.

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It would not be natural to expect that any fundamental departure from the existing monetary conventions could avoid fierce opposition, particularly from quarters where the present system ensures wealth and power. Doubtless propaganda would be organised to discredit such innovations, and indeed we have already experienced a foretaste of this in the apparently inspired forebodings about the suggested experiment with Social Credit in Alberta. The Press in this country maintained a discreet silence in face of what promised to be one of the most epoch-making experiments of this or any other century, and when silence became impossible in face of Aberhart's astounding success at the polls, the Press in general was careful to suggest

that in any case the experiment was doomed to failure, and that its sole value will have been to show up, once and for all, the obvious fallacies underlying the Social Credit proposals.

In fairness to the courageous Mr. Aberhart, it must be pointed out that in four respects at least Alberta is a most unpromising locality for the introduction of any measure of Social Credit. In the first place, Alberta is not financially a self-determining area. Canadian money circulates as legal tender there, and matters of currency and credit are reserved by the British North American Act of 1867 (the Constitution of Canada) to the Federal Government, and are not under control of the individual provinces. Secondly, Alberta is not primarily an industrial area : it is very largely agricultural. While an agricultural area is, in some respects, more physically independent than a purely industrial area, the Social Credit ideas seem more applicable to a community with a greater degree of industrial development than Alberta yet possesses. Thirdly Alberta is saddled with a substantial external debt, incurred in the orthodox manner, and giving to her creditors an inconvenient opportunity to interfere with any unconventional financial experiments. And fourthly, Alberta has of recent years been afflicted by withering droughts and sand storms. Many acres of land have relapsed out of cultivation as a result of these physical calamities and of the financial inability of Alberta's citizens to combat the ravages of drought and dust. Aberhart may yet succeed in introducing some form of Social Credit into Alberta. If he does so, it will be a triumph for sane finance : if he fails it will be because the handicaps are too great.

Aberhart undertook to introduce Social Credit within eighteen months of his election (August 1935). So far, it must be admitted, he has not succeeded in introducing

Social Credit in any recognisable form. Observers may be unduly impressed by this failure and even advocates of Social Credit are liable to succumb to disappointment and to forget that Alberta is not alone in her struggle. Saskatchewan has two Social Credit representatives at Ottawa to supplement the fifteen from Alberta. Manitoba has five Social Credit members in its Legislative Assembly. At the other side of the world, the New Zealand and Tasmanian Parliaments include Social Credit representatives. Nor does this list make any pretence at completeness.*

The dilemma inherent in the inability of people to buy what they can produce is becoming more and more widely recognised. Throughout the world there is a healthy and growing resistance to financial domination. Even though Aberhart and his Government fall, the struggle will be renewed in Alberta or elsewhere, with the benefit of added experience. Never again will the restrictions of orthodox finance pass for long unchallenged, until finally they are discarded along with those other taboos and fetishes which, if ever useful, have now outlasted their usefulness.

(91)

It would be difficult for opposition, however organised, to maintain for long a financial boycott of any industrially developed and financially independent country adopting Social Credit, as foreign merchants—urged by their own system to sell wherever possible—would hesitate to refuse any market backed by money which could be readily exchanged for goods and services.

*For further information on this subject see the writer's "*Aberhart and Alberta*," The reader is also referred to Major Douglas' book, *The Alberta Experiment*, for the latter's review of the situation and justification for his non-co-operation in the early stages.

But supposing, for example, that Great Britain were to make the great venture, and that at first no foreign merchant was willing to accept British money. Even then there would be no fear of starvation, for our annual income from abroad (in interest on foreign investments and in payment for shipping services) forms a substantial claim on foreign goods and services. By means of a domestic exchange between those entitled to income from abroad and importers of foreign goods, it would be possible to ensure an inflow of goods to the tune of over two hundred million pounds' worth each year in excess of what we were able to obtain in exchange for our own exports. This would go a considerable distance towards paying for those essential foodstuffs which it is not convenient to produce at home. If the income from abroad did not prove sufficient to tide us over the period during which finance was trying to discredit the innovation, it might be necessary for a few years to realise some of our accumulated capital resources and to spend the proceeds on the goods we wished to import. There would be little difficulty about this, and in the interval there would be provided a demonstration of the essential soundness of British money.

It should not be overlooked that although at the present day Britain does not promise to export gold in settlement of her trading deficit, her money is accepted and her orders are taken because it is known that behind both is the capacity of the British people to honour its money with goods and services on demand. This capacity would not be lessened, but rather increased, by the adoption of Social Credit.

A country whose money was scientifically regulated could adapt its system to further any policy it wished. At the present day the Japanese have adapted their money system, by what is thought by some to be an inverted type

of Social Credit, to capturing the markets of the world. So, if it were essential for us to do so, could Great Britain. Now Great Britain finds it convenient to import corn for her population, but she has coal that she is willing to export in exchange. If Argentina needs coal, Great Britain is not the only country willing to supply. But the exporters of other countries have to calculate their price on orthodox lines, while British exporters would be able to quote prices representing the real cost of the coal. In most cases they would get the order, would deliver the coal, and would be paid in Argentinian money. So Great Britain would obtain a claim on the goods and services Argentina can supply, and it would be the function of a domestic Exchange Office to pass the Argentinian money from the exporter who had given coal for it to the importer who wished to pay for corn.

Here again we find barter in operation—Great Britain bartering coal for corn—facilitated by a domestic monetary mechanism. Great Britain would have bought real wealth of one sort with real wealth of another, and no foreigner need be asked to accept one penny of British money.

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Of course, objections to the Social Credit proposals are met and must be expected. Objections based on economic grounds have as far as possible been anticipated and answered in earlier pages, but perhaps sufficient attention has not yet been paid to objections based on what may be described as ethical grounds.

One such objection,

“perhaps almost universal, is that Social Credit, by relieving everyone of the fear of poverty, would remove the chief stimulus to what is called ‘work,’ with the result that civilisation would fall to pieces.

Now superficially this is an important objection, and not lightly to be disregarded. If the existing state of affairs provided evidence that the fear of poverty was a successful stimulus, was a successful motive power for society, it might perhaps—I do not say that it would—be justified on pragmatic grounds: but it must be quite obvious to anyone who is familiar with the facts of industry that the fear of poverty is the worst possible incentive to successful industry. I have no hesitation whatever in saying that the most important work, the hardest work and the most work per man in the world is done by men who have no fear whatever of poverty and no human likelihood of ever being poor. Conversely, those sections of society which are constantly faced with the fear of poverty tend automatically to become incapable of anything but the lowest grade of work, and ultimately do this work less efficiently than better paid and socially better placed individuals. Whatever function it may have fulfilled in the past, it is my personal opinion that fear of any kind is the most destructive and generally undesirable motive which can be imported into any human action, and that no greater service can be made to mankind than its elimination. There is, however, an additional fact to be considered in regard to the objection that the work of the world could not be done except under the stimulus of poverty, and that is that we are rapidly passing from the human labour stage of progress into the machinery stage of progress, and that if the enormous amount of necessary work which is stimulated by the existing financial system were eliminated, notably, of course, the completely non-productive labour of what is called 'business' as opposed to production and distribution, the work of the world could be done with a surprisingly small percentage of the labour available."*

Others object that human nature will not be permanently satisfied by what they call "merely material" pro-

* C. H. Douglas in "*Warning Democracy*," at pp. 27 to 30.
See also Section 78 *supra*.

gress. This is probably true, but if, as is not unlikely, any initial extravagance is followed by a type of life which is simpler than we have at the present time, it will be all to the good. Such a state of affairs will be far more stable if it comes as the result of experience than as the result of an imposed ideal. And, granting that material progress is not sufficient of itself, is that any good reason for refusing it ?

But probably the most fundamental objection is one which arises from the feeling that it is not altogether good for people to have what they want. This feeling, being very widespread, is probably the most powerful obstacle at the present day to the realisation of prosperity. It is based on a conception of human nature as being essentially bad, and a consequent belief that mankind should be hedged about with prohibitions and restrictions. It is a purely negative attitude—a denial of the fulness of life. Clearly no amount of argument on the possibility or desirability of abolishing poverty can remove this objection. It is not a matter for argument, but purely one of belief. With all due respect for the opinions of those who so believe, it would seem, as an outlook on life, to be based on bad economics and worse theology.

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For many generations Science and Religion have apparently been in opposite camps. New discoveries have from time to time been discountenanced as contrary to current religious beliefs rather than accepted and welcomed as a fuller interpretation. The truth that the world moved round the sun, rather than that the sun encircled the world for the especial benefit of the human race, was held by Galileo's generation as a blasphemous doctrine, throwing doubt on the supreme position of man in the

Universe. And Galileo, to save his life, had to deny what he knew to be the truth.

It was towards the middle of the last century that the controversy between Religion and Science was most acute. Darwin's "*Origin of Species*," a scientific treatise published in 1851, was the basis of Herbert Spencer's philosophic doctrine that

"evolution accounted, or would account, for the existence of all phenomena, including man. Most people are not interested in the technical lectures of scientific experts; they have not the intellectual training to understand them; so they leave the details of such subjects to the experts, not perhaps realising that the soundness of the generalisation depends on those details. But they are interested concerning the theory which seems to them to justify the scientists' conclusions."*

Spencer's "popular" exposition of Darwinism obtained such general favour that many religiously-minded but unscientific persons rushed in to repel a supposed attack on their beliefs, and committed many intellectual absurdities in the extremity of their emotions. In return, scientists and pseudo-scientists, affecting an intellectual contempt for their opponents, attacked Religion as an obstacle to true scientific progress. The controversy centred in the question of the infallibility of the Scriptures, in which doctrine Mr. Gladstone, Cardinal Newman and Mr. Spurgeon were all agreed. Yet on page 56 of the Report of the Lambeth Conference of 1930 the following words appear :

"Certain sciences, whose boundaries were for generations indeterminate have, in recent times, united to give us a consentient view of the process by which the world as we know it came into being.

* From the pamphlet, *Lambeth and Bristol*, by the Rev. Arthur Dale, to whom acknowledgment must be made for many of the ideas contained in this section.

From this view has emerged an account of the order of creation upon which all instructed opinion is now agreed. Physics and astronomy, geology and biology, anthropology and archaeology, unite to give us a description of the ordered sequence of creation. In view of this revelation, for such it truly is, the popular interpretation of the Biblical account of creation cannot be accepted literally ; and it must be remembered that in great ages of constructive theology such a literal interpretation was not regarded as of primary importance.”*

In these words we see a definite acceptance on the part of the Bishops of the Anglican Church of the contribution that Science and modern thought have to make towards their message, the wonder and beauty of which loses nothing in the fuller revelation.

Correspondingly, Scientists recognise that the riddle of the Universe is not solved, and that there are gaps in our knowledge for which Science can as yet find no satisfactory explanation. Evolution may account for the development of life, but not for its origin. Man and the ape may have a common ancestry ; but man, whatever his origin, has a personality for which evolution of itself cannot account. Finally, there is the fundamental gap between the non-existent and what is. Whence came the initial impulse ?

Some scientists, holding a mechanical view of the Universe, point out that we are at the beginning and not at the end of discovery, and claim that, with further research, the key to all these riddles will be found, and the gaps in our knowledge filled. There are others who find it necessary to assume the existence of some outside Influence, one which cannot be explained by reason alone.

* Quoted by the Rev. Arthur Dale in *Lambeth and Bristol*.

For them, evolution is not a matter of chance, but must be ascribed wholly or in part to spiritual agency.

This rapprochement between Religion and Science is not to be found in the realm of finance. The reason, no doubt, is that at the present time the issue, recall and control of money is not based on any truly scientific principles, but is a series of expedients founded on false values—a cause of stumbling rather than of advancement. But between Christianity and the new economics there is no antagonism. When Our Lord fed the five thousand in the Wilderness, he did not ask if they had done a good day's work first : indeed, the presence of this crowd so far from their homes must have told him that many jobs were being neglected ! Nor in His Prayer did he teach us to say "Give us this day our daily work." The principles of the Compensated Price and of National Dividends stand four-square with the teaching of both Religion and Science.

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What social distinctions are we likely to find in the Social Credit State ? There will no doubt be very profound changes in the structure of Society, but in what direction will they occur ? No one can, of course, foretell the future with certainty, but developments will probably take place somewhat on the following lines.

Let us first consider the position of our manual workers, with whom we class those who would normally obtain their livelihood through manual work if there was work for them to do. How will they fare in the Social Credit State ? No doubt there will be many who will be content to live

* The writer is indebted to his wife for many of the ideas contained in this and the two following sections.

on their national dividends, and it will naturally be those who are least efficient industrially who will drop out of productive work. It is not necessary to conclude that they will be idle : adequately-paid leisure will enable each for the first time to find his or her particular bent, for inefficiency in a factory does not necessarily imply a lack of skill in other directions. To-day there is little opportunity for the worker, pitchforked (if he is lucky) into a job at the age of 14, to find the kind of work for which he is best fitted. It is vitally necessary for the mental and physical health of each individual that he should find one thing that he can do really well : but at the present time the worker is often too weary after the fatigue of a job for which he is unfitted, or too disheartened by failure to obtain a job at all, to have the necessary mental alertness to branch out experimentally. None the less, man is a creative animal, and when there are the leisure and the means for the creative faculty to have full play, many a one now regarded as unemployable will be found ranking high in the esteem of his fellow men through the development of some talent which an age of leisure will have time to appreciate at its true worth.

The man who receives a wage or salary in addition will be able to live in greater comfort than the man who lives on an unsupplemented national dividend. But the recipient of the national dividend, being to that extent financially independent, will be in a strong position to dictate the conditions under which he will work. To-day the most congenial work tends to be the best paid. But the generation of manual workers who first receive the national dividend will not be content to bring up their children for the factory or pit when they can afford to have them educated for some other occupation, unless the pit-pay or factory-pay is good and the position a socially

honourable one. At present the sons of coal-miners only follow in their fathers footsteps because "there's nowt else." The time may come when coal miners and sewer men, to take two examples of persons employed in dangerous or distasteful jobs, will receive wages equal to those of university professors, and enjoy a social status correspondingly enhanced. He who is your servant will be great among his fellows, and he who would be great among his fellows will have to serve them.

An interesting development is likely to occur when the more unpleasant and dangerous jobs become the more highly paid. The rate of mechanisation of such jobs will be greatly speeded up. The machines that it would not pay to instal to displace a dozen men at £2 a week will be very worth while installing to displace the same number of men getting £5 a week. Then, as the work becomes safer and less arduous and the number of men employed become fewer, a genuine competition for jobs will arise. This will probably tend to reduce the wage level once again, although at the same time increased powers of production will increase the amount distributed as national dividends. At present in many industries—coal mining for instance—there is a general reluctance to take advantage of inventions that will displace men and so increase the number of the unemployed in what are already distressed areas. In time, however, the displacement of men from dangerous occupations will come to be regarded, quite properly, as a blessing, and human ingenuity will definitely strive to free mankind from the chains that bind him to his machines. The inventor and the man of research will rank in general esteem among the important people of the land. The present terrible wastage of genius will cease. Industry will not be unable to risk the trial of new ideas lest they prove failures, and there will be less quiet

pigeon-holing of new inventions that may displace older interests. To the inventor we shall look for a steady increase in the amount of our national dividend for through him ability to produce and leisure to consume will both continually expand.

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Where, then, will the present upper class find themselves in those days? The man whose income arises from interest on money lent will no longer be able to command the rate to which he is now accustomed, so that his income from that source will be reduced. Loss of this income will to a substantial extent be made good by his national dividend, but there is a more important loss which he will have to face—the loss of his privileges and power to command service from those below him in the present social scale. For, with a national dividend, who need be servile? Nobody who at the same time has enough brains to be an efficient servant. People willing to help run his establishment for him will do so on their own terms. There are very many people who command respect and service by reason of their personalities, and who would continue to receive them as their due. The rest will either have to clean their own boots or pay well for somebody to do it for them.

Then, there is the artist class. To-day it has an increasingly precarious position in the scheme of things, only maintained in some cases through the commercial demand for attractive advertisements. It seems clear that the true leisure State will be a paradise for artists. The demand for works of art, for music, for plays, for creations of beauty in every aspect, will increase as financial stringency relaxes. Into their ranks will pour those set free by the national dividend to devote their lives and

enthusiasm to art, instead of striving to keep it alive as a hobby for after-hours, to be pursued with only the dregs of their energy. Art will then be less of a commercial proposition, and will be followed mainly for its own sake, as an expression of individuality and for the satisfaction that comes from creating beautiful things.

There is one class whose position in the Social Credit State is an interesting speculation. Where will the monetary heretics of to-day find themselves when the central ideal of their lives is realised? Will they be found, a body of elder statesmen, telling the politicians of the day how to keep the country on the rails? More probably they will receive very little recognition for their work, and it is to be hoped that none would wish it otherwise. Sufficient has already been said and written to enable our rulers to put Social Credit into operation without further aid. Afterwards, the country will run its course on a well-engineered permanent way. It will no longer bump along upon an uncertain track, meeting curves that are too sharp, and gradients that are too steep. Social Credit protagonists, their work done, will have to make their bow and withdraw as gracefully as possible. Very likely no one will notice the bow. A year or two later their next-door neighbours, who now are frankly sceptical or entirely uninterested, will tell how they had always realised the solution, and will furthermore recall the time when they (the neighbours) first brought Social Credit to their notice.

What then will the vanguard do? Some will doubtless become the bores of their locality, recalling the Bad Old Days and fighting the old fights over again. Like Rupert Brooke's Menelaus, they will

"Wax Garrulous and sack hundred Troys
'Twixt noon and supper."

Others will start to do all the glorious things of which they now dream, but which have to be put on one side until the greater task is completed. Others, of tireless social conscience, will find that even in a Social Credit State there are wrongs to be righted and battles still to be fought. For them Man's entry into his material heritage will be but one step forward on the road to higher things.

So we see that in the Leisure State existing ideas of class will disappear. Independence will take the place of servility. The daily work of the world will be done by those most competent to do it, and for that reason will be done speedily and safely. People who contribute nothing to the enjoyment or achievement of society will be recognised for the nonentities they are, but yet will not be denied their fair share in the accumulated wealth. (They will not be lonely. They will probably run Bridge Parties among themselves, and lament the Good Old Days). Human nature will be seen, probably for the first time, freed from economic restrictions. Also for the first time the majority of mankind will not carry their talents unused to the grave, but will be able to use and develop them for the glory of God and the benefit of themselves and their fellows.

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No survey of conditions in a Social Credit State would be complete without an examination of the future position of women. It is the status of the married woman which gives us the biggest field for speculation. At the present time the majority of married women are financially dependent on their husbands, and large numbers of husbands prefer that this should be so. On this account it is necessary to emphasise that the national dividend must not be paid to the family but to the individual. A

married woman who receives into her own hands her national dividend becomes financially independent of her man. Payment of the national dividend is thus seen to be essentially different from the family endowment advocated by certain politicians. Both husband and wife will be financially free to terminate an unhappy marriage—due regard being paid to their responsibility for the children, if any. It is unlikely that this will involve more divorce or separation than occurs to-day, for the knowledge that either party is in an equally good position to contract out will make both husband and wife better behaved towards each other.

The removal of acute financial worry will in many cases ease the relationship of husband and wife beyond belief, but in the married women's role of house-manager there are certainly going to be difficulties and vital readjustments. Man, the hunter, the provider of the raw materials of food, warmth and shelter, has during the centuries found his necessary labour reduced to a few hours a day. At the same time the woman has been promoted from a single-roomed cave to a house full of furniture to be kept clean and dishes which must be washed up. Her husband and children no longer wear a few skins, but have many garments which require washing and mending. The preparation of food has become increasingly complex, and to all this we must add the demands of hospitality, which will certainly increase in a Social Credit state.

One can foresee the woman's load considerably lightened by labour-saving devices, and by central washing and mending depots. One can imagine every kind of household job, except the actual cooking, becoming a matter of knob-turning, and cooking a meal becoming a question of minutes only. But one cannot and will not visualise the

automatic baby-minder. Where there are children, some elder must always be at hand, and yet it is essential for children as for their parents to have times of separation from each other.

The communal creche does not appeal as a satisfactory solution, and it will perhaps become an honoured branch of Social Service, open to suitably trained young women, displaced by comptometers and automatic telephones, to look after the house and children of parents who are temporarily away. But it is not only occasional help that the house-wife needs where there are young children. There must be someone besides herself constantly available. The reason why many working-class mothers look so much older than they are is not that they have borne children but that they have had to cope with them and the work of the house single-handed, without respite over a period of years. We cannot contemplate such a condition of things being general in any emancipated state, and probably some form of apprenticeship to domestic work would in time replace our present system of servant girls.

There is no use shutting our eyes to the possibility that there may be a preliminary period when the problem of running the house will be very acute, especially if the idea is general that it is not "manly" for the husband to do his share of the housework. And yet, why is it not "manly"? Industry to-day is rapidly becoming a matter of pulling levers and pressing buttons. If the buttons and levers operate a washing-up machine and a vacuum cleaner, instead of a nut-and-bolt machine, is a man's maleness the more endangered?

In actual fact, it is where men have the most manly jobs (if "manly" may be taken to involve expenditure of physical energy coupled with an element of danger) that

they enter with greatest gusto into so-called "women's work." Yorkshire miners push out the pram with a very proper pride, while railway men are renowned window polishers, and sailors when at home make admirable handy-men. It is where no demands are made on man's superior strength in his routine job that he fears complete loss of his manhood by doing "women's work" at home. In a Social Credit state men will find plenty to employ their muscles and yet will have plenty of time left to assist their wives so that they, too, may share in the leisure which is to be released upon the world for all alike.

Although there will be always some who will never experience any difficulty in obtaining domestic help, whom people will always be ready and anxious to help, literally for love, there are others whose personality does not invite service. There will still, therefore, be plenty of scope for the exercise of the virtues of forbearance, charity and willing service, and for loving one's neighbours at least as much as one's self. Free from the more oppressive worries of the present day, personalities will be able to blossom and become more likeable. But unlikeable people will no longer be able to command service through economic pressure. No doubt one result will be more pleasantness all round.

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The reader who has got thus far will no doubt issue the challenge : How are you going to put your ideas across ? Such a question, be it noted, tacitly assumes that the enquirer has no personal responsibility in the matter. Yet the answer lies with him. As soon as a sufficient number of people are convinced of the desirability, the practicability and the moral rightness of Social Credit, the proposals become a matter of practical politics. Social Credit will be

achieved as soon as a sufficient number of people demand that it shall be.

It is unfortunately true that

“it is the psychological problem of creating the desire to abolish poverty that is more difficult than the economic problem of discovering how poverty can be abolished.”*

Do you, reader, really wish to abolish poverty, not only for yourself, but for your neighbours, your servants, and the people in the next street? Do you really wish to abolish the horrible feeling of insecurity that pervades men's lives to-day? Do you wish it sufficiently to do something about it? Are you prepared to endanger the little bit of social position and prestige that are now yours because you can afford more than someone less fortunately placed? If so, the means are known: they have already been set forth in this book. But *do* you really want to abolish poverty?

The responsibility for a continuance of the present state of poverty and insecurity is not merely a collective one. It is the personal and individual responsibility of every person who accepts the argument of the foregoing pages to strive to achieve the promise they hold out. It is also his personal and individual responsibility if he neglects to do so.

* Christopher Hollis in “*The Breakdown of Money*,” at page 110.

Chapter XIII

SOME CRITICS

Social Credit and Socialism—Durbin and Productive Capacity—Durbin and "A. & M."—Gardwell and the Co-operative Price—Hickert and "Industrial"—Hickert and the "Five Dollar Credit Fallacy"—The Henry Georgeian.

[99]

PART FOUR

SOME CRITICS

It may be useful, before concluding, to reply briefly to some of the published criticisms of the Social Credit position. An attack on Social Credit, or any other unorthodox idea, may have an influence quite disproportionate to the weight of the arguments advanced. This is because people in the main prefer to leave thought to any but the most superficial kind to the recognized leaders of their particular movement. When, therefore, a published criticism of Social Credit is written, it is unlikely that many of his readers will appreciate more than those arguments which are, in effect, repetition of what they already believe. Much in Social Credit is unfamiliar, so when a pronouncement is made unfavourable to Social Credit, many people feel (without much regard to the pros and cons) that it has been completely refuted.

Of the Socialists amongst who have publicly attacked the Social Credit position, we propose to refer to Durbin, Gardwell and Hickert, for the reason that these three were subsequently selected by the Labour Party to write a statement on Social Credit. The impartiality and thoroughness of the review made by these persons is of course to be commended, but it is not to be denied that they had already formed opinions on Social Credit before they were asked to write the statement.

It is a pity that the author of this book should have been so much concerned with the technical details of the subject.

But the book is a very good one.

It contains a number of chapters which are very interesting and which are written in a very clear and concise manner. The author has done a very good job of presenting the material in a way which is easy to understand.

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(98)

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Of the Socialist economists who have publicly attacked the Social Credit position, we propose to refer to Durbin, Gaitskell and Hiskett, for the reason that those three were subsequently selected by the Labour Party to write a statement on Social Credit. The impartiality, and therefore the value, of a report produced by three persons each of whom had already definitely committed himself in oppositions is, of course, open to question, although their adverse

Report is probably accepted as final by those who are not sorry to condemn Social Credit out of hand.

For it must be frankly realised that although Social Credit points the way to a vast increase in the sum of human happiness and prosperity, many Socialists would seem to prefer a lesser prosperity without Social Credit to a greater prosperity with it. Not until the ideas and methods which they advocate have been tried and found wanting will they countenance a rival, and perhaps not even then. And in Social Credit they undoubtedly see a rival, attracting to its cause many who might otherwise be content to advocate the tenets of theoretical Socialism.

Yet there is no fundamental antagonism between Social Credit and Socialism, or for that matter between Social Credit and Capitalism. The Social Credit proposals are a monetary technique for enabling the blessings of plenty to be distributed. They have little to do with the particular organisation of the Society in which such distribution takes place.

To the Socialist, the fundamental objection to Social Credit is that it does not require the nationalisation of the means of production and distribution. Social Creditors believe that in the past the productive capacity of the nation has developed satisfactorily—taking into account of course, the financial difficulties with which it has had to contend—and that for the time being the urgent problem is that of stimulating our capacity to consume. The doctrinaire Socialist, however, sees in this departure from his fundamental principles. He claims that throughout the many processes of production and distribution, the means to produce, distribute and exchange goods must be owned by the State. But what does he really

mean? There are many things which can be socially enjoyed—such as parks and pleasure gardens. But there are many more things which must be individually appropriated before they can be enjoyed, such as trousers and tooth-brushes, food and drink. It would seem that the basic difference between the Socialist and his opponents is simply that the Socialist would retain State ownership of everything as long as practicable, while the Capitalist would allow things to become privately owned as early as possible in their career. The Social Creditor does not really mind, but hesitates to upset existing arrangements unnecessarily.

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E. F. M. Durbin, of New College, Oxford, is a Lecturer at the London School of Economics. He is also a critic of the Social Credit proposals, and his views will be found in "*A Socialist Credit Policy*," issued by the New Fabian Research Bureau.

Durbin appears to be the most temperate critic of the Social Credit proposals who has as yet rushed into print to demonstrate their impracticability. Although he recognises at the very outset that credit policy and Socialism have in one sense nothing in common, he realises that Socialist must have a monetary or credit policy for, as he states,

"The problem of nationalising the banks has been argued and debated with considerable feeling, but the more difficult problem of what to do with the banking system, however and whenever it may be nationalised, has not been properly discussed."*

Durbin begins by estimating the increase in the production of goods which could reasonably be expected

* At page 6.

under a successful money system—which he defines as one which keeps existing resources in full employment. Stating that during the past ten years the average percentage of registered unemployment had been twelve-and-a-half he suggests that the unemployment of material resources had not been proportionately greater and concludes, that an entirely successful monetary policy could have raised our physical output by only 10% to 15% over the period.

Durbin believes, then, that a successful monetary policy would result in an increased output of goods, but he is entirely at sea with regard to the size of such possible increase. The various organisations engaged in industry at the present time remind one strongly of rival tug-of-war teams. Sixteen strong and healthy men, putting forward all the energy they possess, move a rope a few inches in as many minutes—a job one could do single-handed in a couple of seconds. Each team is as efficient as skill and training can make it, but its energy is largely countered by the energy of its rival. So we find that many of those employed to-day are simply engaged in thwarting rival activities. With a properly regulated money system—one which provides a possible market for all needed output—this state of affairs would disappear almost entirely, and the energy now dissipated in this way would be free to combine in more useful activity.

Again, there are many thousands employed in seeing that someone does not, in this age of physical plenty and financial poverty, obtain a penny more than is due to him under the rules of the present system. The majority of these, together with numberless canvassers, advertisers, agents, and “business-men” would, if necessary, be available to produce useful goods and needed services. If therefore an effective demand for increased output

arose, the number of those actively engaged in answering that demand could be increased, not by $12\frac{1}{2}\%$, but by something very much higher.

Nor is there any reason to suppose that the increase in output would be merely proportionate to the increase in the number of those usefully employed in industry. Indeed, experience is all the other way. Two men in co-operation can often do more than twice what one can do alone, and four men are often more effective than two couples. There is a definite, distinctly recognisable "increment of association." Rather, therefore, than agree with Durbin's pessimistic calculation, we suggest that, were the monetary demand present, our productive capacity is already sufficient to double or treble our output of consumable goods.

But the story does not end there. Under Social Credit there would be little inducement and less opportunity for vested interests to stifle inventions or discoveries; there would no longer be an incentive to make jobs spin out; the productive capacity of industry would, if it were so desired, increase at an accelerating rate.

On page 8 of this booklet, Durbin states that the object of a Socialist money policy should be to maintain full employment. If that is Durbin's aim, he is, of course, unlikely to approve a policy whose object is to make possible the Leisure State. So, when Durbin deals with Social Credit, it is quite clear that he cannot approach the subject in an unbiassed frame of mind. The object for which Social Credit stands is not the object which he himself seeks to attain, and therefore it is not surprising that he dismisses Social Credit as not being suitable policy for a Socialist Society.

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Six and a half pages out of the seven devoted by Durbin to Major Douglas' views are occupied with a statement and alleged disproof of the "A+B" theorem.* Nor is there any reason to doubt that to his readers the disproof will be considered conclusive. He then claims that Major Douglas' proposals, *insofar as they depend on this theorem*, would merely involve a large, continuous and disastrous inflation. The qualification is one which does not appear in Gaitskell's or Hiskett's attacks on the Social Credit proposals, and in this respect Durbin shows himself more far-sighted. For the proposals depend for their validity on the *fact* of the shortage of purchasing-power rather than on any particular method of proving it. As Durbin himself states :†

"If no saving is going on, if no idle money exists, and if the production of consumption goods is not increasing, then consumers' purchasing-power will be adequate without the continuous creation of new credit. But suppose these conditions do not exist? Suppose that saving is taking place and that the productive resources of society are increasing, or that some money which has been earned is not spent but hoarded, what will happen then?"

Durbin realises that in a modern progressive industrial community saving and reinvestment are continually taking place, the productive resources of society are always increasing and sometimes hoarding occurs. The question of hoarding need not, however, detain us or Durbin long. Money hoarded, and not spent or invested, is available for spending in the hands of him who hoards it, so that there is no added deficiency in the *power* of people to purchase, even if that power is *pro tanto* unexercised.

* See Section 21, *supra*.

† In "*A Socialist Credit Policy*," at Page 16.

The chief increase in the productive resources of Society occurs as the result of saving and reinvestment (either direct or indirect), so that these two can be considered together. In his analysis of social saving Durbin writes good sense until he forgets what he has himself postulated, that the question is one of "the relation . . . between the *total price* and the *total money costs* of producing consumption goods." The prosperity of industry depends on the relationship between the aggregate demand for consumption goods and the total amount of the costs which industry is waiting to recover. The price of individual units is beside the argument. The fact that investment in industry lowers in many cases the average level of costs per unit of production does not improve the position in the slightest if the rate of recovery of costs in the aggregate is not increased commensurately. But somehow Durbin regards the saving in costs effected by new machinery as enabling industry to carry on with relative prosperity, and seems to overlook the fact that reduced costs reflect a reduced distribution of wages and salaries, which in turn is reflected in a reduced demand for commodities in the aggregate. It is unfortunate that the apparent omission to realise this fact vitiates what is in all other respects a carefully written and moderate statement.

When discussing the correct Socialist credit policy, Durbin definitely rejects the idea of stabilising prices and advocates a policy of *stabilising money incomes*. The temptation is great to launch out into a detailed criticism of this suggestion, but as we are only dealing with Durbin in so far as he is attacking Social Credit, we must reluctantly refrain. We have no time or space to follow Durbin further in his search elsewhere for a satisfactory credit policy.

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H. T. N. Gaitskell, also of New College, Oxford, is the lecturer in Economics at University College, London, who contributes to Cole's symposium, "*What Everybody Wants to Know about Money*," a chapter on four monetary heretics, foremost amongst whom he places Douglas.

Gaitskell commences his review of the Douglas proposals with the correct statement that Douglas and his followers contend

"that the existing relationship between finance and industry produces a permanent tendency towards a deficiency of purchasing-power."*

and straightway proceeds to an examination of the notorious "A+B" theorem. There is no doubt that Gaitskell throws sufficient doubt on the theorem for his "disproof" to be accepted as complete by all prepared to receive it as such. To this part of his criticism (closely copied from that of Durbin) Gaitskell devotes twenty-two pages. The rest of his criticism of Social Credit is compressed into six pages. Social Creditors cannot, however, fairly complain of disproportion, because, from the very first, such emphasis has been laid upon the A+B theorem and such lengthy arguments and explanation adduced in its support that those who do not accept Social Credit are in some measure justified in concentrating their attack here. But, when so much has been said in defence of Gaitskell's attitude, it is strange to find him seriously asserting that Douglas,

"rejects two well-known methods of increasing purchasing-power, namely an increase in bank credits and a direct increase in consumers' incomes."†

* At page 348.

† Ibid, at page 370.

In his minute study of the Social Credit proposals, is it possible that Gaitskell has never heard of National Dividends?

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Gaitskell deals briefly with his idea of the Just Price proposal. Unfortunately he cannot have any very accurate idea, for he tells his readers that

“at the first sign of rising prices no more new money is created.”*

No, Gaitskell, that is *not* the idea at all. The question as to whether or not new money will be created depends, not on the price level, but on the relationship between production and consumption. The Just or Compensated Price is a mechanism for equating potential consumption with potential production by means of price regulation. It is not a mere price stabilisation proposal.

Gaitskell concludes that the proposals are “inflationary” (a word he does not define) in the sense that they would lead to “boom” conditions if they could be put into operation without panic.† Realising the comparative prosperity enjoyed in periods of “boom,” we can only thank Gaitskell for this unsolicited testimonial. But he adds that there seems no reason to suppose that such conditions would not end in a collapse. If and when production and consumption had become approximately equal and the Government put no further money into circulation, how, asks Gaitskell, would this differ in effect from the refusal of the banks to renew loans and overdrafts? Some of the more obvious answers to this question are the following: (1) Under Social Credit, expansion of the money supplies would not cease until physical conditions required that it should. It would not end in obedience

* “*What Everybody Wants to Know about Money*” at page 371.

† *Ibid.*, at page 372.

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to bankers' whim or fancied loyalty to sound financial principles. (2) The cessation of expansion would not necessarily mean the commencement of contraction. When the banks refuse to renew loans and overdrafts, it results in a definite decrease in the amount of money, due to repayment of existing loans and overdrafts. (3) Under present conditions, the refusal to renew loans and overdrafts leaves Industry saddled with debt, which becomes more burdensome as monetary contraction sets in. This would not be so if the Government decided, for physical reasons, not to expand further the national money supply.

Gaitskell adds that the technical difficulties of regulation at the Just or Compensated Price would be enormous, and gives several reasons applicable to the type of price regulation he himself has in mind, but not at all applicable to the Compensated Price of Social Credit. He is, however, frank enough to admit that his opposition is based on a denial of the possibility of any monetary deficiency such as Social Creditors believe to exist. But since there is, undoubtedly, a shortage of purchasing power due to many causes, some of which have been considered in Chapter Three of this book, a remedy designed to make good such shortage as exists need not, on Gaitskell's own admission, cause inflation.

Curiously enough, Gaitskell points out that if the question of new investment is taken into account, it is possible to arrive at a fraction akin to the Compensated Price formula, and seems to admit the possibility of a discount of about 20%. He states that such a discount is different from and far smaller than that suggested by Social Creditors. But is it? In his later schemes Douglas suggests a discount of 25% to start with. The difference is not very substantial and could easily be justified

by reference to other causes of shortage. However, it is not only current figures that have to be taken into account ; there is also the cumulative deficiency of the past century and a half. This leeway has also to be made up, so that, in the early stages at least, a price reduction of 25%—the percentage suggested by Major Douglas—seems, even on Gaitskell's premises, to be an eminently reasonable one.

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We come now to the third partner of the trio, W. R. Hiskett, author of "*Social Credit or Socialism*." An extract on the cover of his book refers to Major Douglas' evidence before the Macmillan Committee in terms of utter disparagement, and the introduction is skilfully calculated to arouse in readers an initial prejudice against Major Douglas. The impartiality of Hiskett's examination may accordingly be assessed in advance.

Hiskett has based his book on the examination of Douglas before the Macmillan Committee on Finance and Industry, made on 1st May, 1930. He does not, perhaps wisely, give Major Douglas' evidence, but prefers to criticise wherever possible the answers given by Douglas to a series of questions put to him by the Chairman, Professor Gregory, Sir Thomas Allen, and Messrs. Brand, Keynes, Lubbock, McKenna and Tulloch. It is, of course, utterly impossible to deal with each of Hiskett's comments without taking up almost as much space as Hiskett himself has occupied, but there are a few observations that may usefully be made.

In the early part of his "examination," Hiskett states that Douglas' proposals are "quite definitely inflationary." He does not define inflation, but apparently uses the term to cover any form of monetary expansion, and deliberately

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enlists against the Social Credit proposals the prejudices against inflation which have been nurtured by our more "responsible"* City Editors. Yet on page 85 of his book Hiskett goes so far as to say that if Douglas

"were content to claim that any expansion of the machinery of production should be met by a corresponding expansion of purchasing-power, his ratio of appreciation to depreciation might indicate the measure of the expansion of purchasing-power required."

Finally, while agreeing that to equate purchasing-power to production is a very practical and desirable object, Hiskett states that it is "abundantly clear" that Douglas' scheme goes far beyond merely providing the additional money required to balance a greater volume of goods for sale, and describes the Douglas policy as

"proposing to apply a presumed future saving in the cost of production for the purpose of assisting consumers to buy existing stocks of goods. In other words he proposes to fictitiously lower present prices to the consumer by making a draft on the future."†

If it were proposed that the new money should come into being as the reflection of new debt to the banking system, the latter part of the above criticism might be legitimate. Under no circumstances can the former part be held anything but a fantastic distortion. For the State to issue new purchasing-power to enable people to utilise productive capacity that has already been created can hardly be styled "making a draft on the future." Social Credit is not, as Hiskett describes it,

"a continual process of gambling on a future increase of production in order to distribute the value of that increase beforehand."

* to Whom ?

† At page 86.

It is monetising the past increase in productive capacity in order to distribute the benefit of that increase to those who have created it.

Throughout his criticisms Hiskett overlooks the fact that scientifically controlled expansion of money cannot be inflation unless it is out of relation with the work it is required to do. Hiskett evidently believes that in all cases the effect of an issue of credit is to raise prices. This, though not necessarily so, even under the present system, is generally the case to-day. But the Douglas proposals are not merely a new method of playing within the existing rules of the game : they involve an alteration in the rules themselves.

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Considerations of space prevent us from drawing attention to more than the most glaring of Hiskett's comments and criticisms. One gem appears on page 105, where Hiskett avers that Major Douglas

"does not seem to have made up his mind whether he is proposing to increase purchasing-power or to reduce prices."

As a matter of fact, Douglas proposes to do both, price-reduction being one of the methods by which purchasing-power is to be increased.

Another of Hiskett's curious statements is that Douglas seemingly prefers a currency rather than a cheque mechanism.* Why he should make so inaccurate a statement is hard to understand. Douglas visualises the greater use of cheques, circulating National rather than bankers' credit, redeemable whenever required in Treasury Notes. Even more than to-day, currency would be "the small change of credit."

* "*Social Credit or Socialism*," at page 118.

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Hiskett's Chapter on First Principles is a curious mixture of the wise and otherwise. The section on Cheques and Bills of Exchange is very clear and useful. But the Chapter also contains such a doubtful statement as that wealth

“must not only be useful, its supply must be limited, and in addition it must be capable of being transferred from one person to another. Anything possessing these three qualities is wealth.”

Hiskett's conception of wealth is such that the more you increase it, the less it is wealth ; from which quaint conceit arise many of the inhibitions and restrictions of his economic theories.

We must finally turn to Hiskett's Chapter on “Five Douglas Credit Fallacies.” These are :

(1) That there is an inherent and continuous deficiency of purchasing-power consequent on the non-availability, as purchasing-power, of the whole of Group “B” payments.

(2) That consumers' credits can be issued in such a form as not to produce inflation.

(3) That the rate of the flow of purchasing-power is much less than the rate of flow of prices.

(4) That production is almost entirely initiated by loan credit, and that this loan credit is issued by the banks, and to a very large extent repaid without producing payments to the public in the form of purchasing-power.

(5) That the price-level can be lowered by an issue of credit to the consumer.

Hiskett's examination of “fallacies” (1) and (3) consists of a refutation of the “A+B” Theorem along the well-known Durbin lines. But he does not and cannot in any way disprove the fact of an “inherent and continuous

deficiency of purchasing-power." Would he, one wonders, agree that owing (among other things) to the diversion of money from financing consumption to financing new production, the money available to purchase goods is never sufficient to pay the total prices of goods available?

In his discussion of the fourth "fallacy," Hiskett emphasises his difficulty with regard to the cancellation of the new money issued. But there can surely be no difficulty, even to Hiskett, with regard to the first two thousand million pounds or so, for the public is at present indebted to the banking system to at least that extent. Repayment of loans with the new money would cancel both the spending-power and the debt. The general question of cancellation in excess of that amount has already been considered.*

Discussing in connection with "fallacies" (2) and (5) whether the price-level can be lowered by an issue of credit to the consumer, Hiskett declares that "It seems almost incredible that he (Douglas) should have ignored the obvious and elementary fact that you can only lower the price-level by *reducing the amount which the producer receives.*" Would it not be equally true to say that "It is almost incredible that he (Hiskett), should have ignored the obvious and elementary fact that you can equally well lower the price-level by reducing the amount which the purchaser pays"? After all, it is quite clear that if consumers pay less for each unit of goods sold to them, the money in their hands will go further, up to the limit of goods available. If more goods are distributed, the community as a whole is materially better off. But we repeat again, the main idea is not to stabilise prices, or to lower prices, or even to raise prices, as an end in

* See Section 85, *supra*.

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itself, but simply to adjust the mechanism of distribution until the public are able to claim all the goods and services which industry is able and willing to supply.

Finally, Hiskett introduces what he terms "a common-sense argument" against Major Douglas' proposals, based on the fact that the means of production are at the present time generally owned by individuals or groups of individuals, giving to the producer the power to fix the price of the goods he offers for sale. He overlooks the fact that under Social Credit the person or group of persons who wished to sell at the compensated price would have to submit to regulations. It would not be all give and no take ; acceptance of a fixed percentage of profit (or if you prefer, commission on turnover) would be one condition of participation.

Hiskett has been at great pains to demonstrate the undesirability of Social Credit. Is this because under it there is every prospect that the present system would function to the satisfaction of the whole community, and there would be less desire for the Socialistic Commonwealth advocated by Hiskett and his colleagues ?

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The curious performances of Durbin, Gaitskell and Hiskett—particularly the latter—in their attacks on Social Credit have detained us overlong. But they are by no means as curious as the performances of the Henry George School, as a sample of which we take "*Poverty and Plenty : the True National Dividend*," by W. R. Lester, M.A., with the sub-title "*The pros. and cons. of Social Credit*." This pamphlet is a most excellent illustration of the way in which one who obviously fails to understand Social Credit will rush in to "expose" it.

The disciples of Henry George, holding that all goods offered for sale are at one and the same time supply and demand, appear to believe that therefore the quantity of money in circulation has little effect on the general position.

"It is with goods and services (not with tickets) that goods and services are bought—use of money merely facilitating the exchange—so that if goods and services are provided there must be a sufficiency of purchasing power provided, money tickets or no money tickets."

They seek support for their contention in the admitted fact that *international* trade is very largely barter. But we do not often find English coal exchanged for English houses, and we don't find Irish cattle exchanged direct for Irish linen, save in the most exceptional circumstances. The external economy of nations may still be barter or closely akin ; the internal economy of a modern industrial state is quite different.

This basic fallacy has been discussed at some length in Chapter Three. In addition, it might have been thought that the very obvious results of monetary contraction—such as was experienced in this country from the middle of 1920 to the middle of 1925—would have convinced even the most wilfully obtuse that the quantity of money in circulation has a considerable influence on the production and exchange of goods and services.

Naturally enough, Lester's argument against Social Credit starts with an analysis of the "A+B" theorem, and the claim that by this theorem the whole case stands or falls. The fact that advocates of Social Credit give other proofs of the shortage of money on the buying side of the market—supplementary and not mutually

exclusive—is claimed by Lester as evidence of muddle-headedness. Really it shows that there is more than one reason for the shortage. If I find the room in which I sit is too hot, this may be due to the presence of a large fire ; it may be due to the warm weather ; it may be due to the number of persons in the room ; it may be due to the heat of their arguments ; it may be due to all or any of these reasons, none of which exclude the others.

Another curious view held by the Henry George School is that bank loans are based on the security offered by borrowers. The security, as a matter of fact, forms no integral part of the transaction at all, as has been explained in Section 65. Except as a matter of precaution a banker can, if he wishes, make a loan without security, simply trusting the borrower to repay. The general effect on the amount of money in circulation is just the same as if security had been given.

Lester is, however, completely befogged when he writes of the Just (or Compensated) Price. He explains that the Just Price of an article is to be fixed irrespective of the cost of its production, though later he correctly states that the Just Price is to bear the same relation to *cost price* as total consumption bears to total production ! He also seems to consider that the price-discount once fixed would remain fixed for ever, amusing himself (and us) by showing how, in circumstances of his own imaginings, "inflation" would certainly occur.

As for National Dividends, the followers of Henry George denounce any proposals whereby persons who make no direct contribution to production obtain any goods or services at all. An attempt to answer this objection has been made in Sections 76 and 77 (*supra*) and in Chapter XIV of the Fifth Edition of "*This Age*

of Plenty." National Dividends are also condemned as perpetuating existing inequalities because they are to be paid to rich and poor alike. But a National Dividend paid to rich and poor alike does much to remove inequality. A man with £400 a year has twice as much as a man with £200 a year, and his financial power is proportionately greater. But a man with £500 a year is not twice as well off as a man with £300 a year, and, so far as financial power is concerned, the difference between them is still less.

Still, Social Credit is not offered primarily as a remover of inequalities. It is offered as a monetary technique. Nor must it be supposed that on the adoption of Social Credit "everything in the garden will be lovely" without more ado. The possibility of loveliness will be greater, but there will still be wrongs to be righted, and there will still be social legislation to pass. If the people of the future desire a greater equality, they will, under Social Credit, be better equipped to achieve it.

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But the National Dividend is not offered primarily as a remedy of inequalities; it is offered as a monetary technique. Not that it be supposed that on the adoption of Social Credit "everything in the garden will be lovely" without drawbacks. The possibility of inequalities will be greater, but there will still be wrongs to be righted, and there will still be social legislation to pass. If the people of the future desire a greater equality, they will, under Social Credit, be better equipped to achieve it.

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APPENDIX A

ARGUMENT ON THE "A+B" THEOREM

(Referencing Section 21)

The principal criticism of the "A+B" Theorem of Major Douglas can be stated in general terms as follows:

Assume that industry occupies three stages, differentiated as A, B, and C. In stage A, raw materials are extracted from the earth. In stage B they are worked upon, and passed on to stage C for sale to the general public or to other organizations. Money is paid away as wages and salaries to the workers, and also to other business organizations. Let us assume, for simplicity, that in a given unit of time the organizations grouped under A pay away in wages, salaries and dividends a sum of a , to men a share of a_1 , and to the organizations grouped under C an amount of c . Let us assume that during the same unit of time the B organizations pay to individuals a sum of b and also pay to A organizations for raw material a sum of x . Finally, let z represent the amount paid to individuals during the same period by the C organizations, and y the amount paid to the B organizations for goods.

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Now in the period under consideration, the gross costs incurred by the A factories are $a+x$, and the costs recovered in price are y . The net costs incurred by that group during the period are therefore $a+x-y$. Simultaneously the net costs incurred by the B factories are $b+y-a$, and the net costs incurred by the C factories are $c+y-a$. Taking the whole of industry during that unit of time, the addition to costs chargeable against the public is $a+y-a$.

PART FIVE

APPENDICES

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Now in the period under consideration, the *gross* costs incurred by the A factories are $a+x$, and the costs recovered in price are y . The *net* costs incurred by that group during the period are therefore $a+x-y$. Simultaneously the *net* costs incurred by the B factories are $b+y-z$, and the *net* costs incurred by the C factories are $c+z-x$. Taking the whole of industry, during that unit of time the addition to costs chargeable against the public is $a+x-y$,

added to $b+y-z$, added to $c+z-x$, or a total of $a+b+c$, which is, by definition, the amount simultaneously distributed to individuals. No inherent disparity between costs and incomes appears to arise from this source.

REPLY*.

The "A+B" Theorem proves only that in respect of every article produced, a part of the costs which must necessarily be aggregated together to compute its minimum profitable selling price lies outside the range of payment of the wages, salaries and dividends distributed in respect of its production, and that on this account a part of the total money needed to meet the price must be obtained from another source.

The "A+B" Theorem isolates and calls attention to a constant factor in the economic system. It proves that the total of incomes derived from industry are insufficient to meet the total charges which must be included in prices to maintain solvency. It does not prove that the total money available at any given time, including that drawn from sources other than the wages, salaries and dividends derived from current production, must be insufficient to enable all the goods produced to be purchased. Sufficient and even more than sufficient money might be made available, in one or all of three ways : (1) by the piling up of new debt to the money monopolists ; (2) by making insufficient provision in the capital accounts of industry for adequate maintenance ; or (3) by over-production of capital goods.

We do not think, however, that the argument submitted, though complete in itself, is tenable as an example

* The foregoing argument was submitted to a group of well-known Social Creditors, and the following notes are extracted from their reply.

of cost-accountancy because it omits all book-costs, as distinct from costs for which money, accounted into prices, is actually employed during the period. We do not think that re-investment covers this point, although we recognise the large factor re-investment constitutes in diverting expenditure (mostly of profits or dividends) from one period to another.

Allocations by every industrial unit must be made, representing reserves for future expenditure upon capital maintenance, and these must be included in every price unless production is to cease with the wearing out of existing instruments of production. The aggregate of these allocations is the *minimum* inevitable shortage of purchasing power ; and the fact that it may be at any given moment overcome by creation of new money, does not affect the fact ; it only affects the greater or less carry-over of unpurchaseable goods. If the lacking money is fully borrowed, indebtedness to the banking system is increased by the whole of the shortage for which the borrowing has been undertaken ; if only a part of the shortage is met by borrowing, and a part by depletion of industrial capital, only the equivalent of the borrowed portion has to be carried over.

We therefore think that the original statement is an "ideal" statement in which the physical costs of production are alone represented in prices. To bring it within the range of actual cost-accountancy, it needs the addition of a cipher representing the elements of price not covered by the expression "gross costs."

REJOINDER.

The "A+B" Theorem does not seem to prove conclusively "that the total of incomes derived from industry are insufficient to meet the total charges which must be

included in prices to maintain solvency." The theorem demonstrates that the total amount of incomes derived by individual members of the community from industry is insufficient to meet all the costs which are incurred in production if credit is not given for costs cancelled in the process. For instance, if factory X purchases goods from factory Y at £100, it is quite true that factory X has by such a transaction added £100 to the costs that it must subsequently recover. Simultaneously, however, factory Y has reduced by £100 the costs that it must subsequently recover. It is this omission to allow that interfactory payments, while creating costs in one direction, cancel costs in another, which leads to the faulty propositions derived from the obviously true statement of the "A+B" Theorem.

In order to avoid complications, such costs as depreciation charges were omitted, and to that extent the example admittedly does not fully reflect current cost-accountancy. Certainly, if reserves for future expenditure upon capital maintenance are actually and physically collected in price and placed on one side until required for expenditure, there must (until they are spent) be a corresponding shortage: but the fact that while some industries are saving for future expenditure on capital maintenance, others are expending on capital maintenance what they have already saved, clearly tends to keep an even flow and prevent any aggravation of the position.

It must be particularly noted that the original statement is perfectly general, and does not necessarily suppose a static condition of industry. It would seem to throw doubt on the "A+B" Theorem as an explanation of the disparity between costs and the power to liquidate them. Yet the observed existence of a deficiency of purchasing-power makes many people, attracted by the

philosophy of Social Credit, eager to accept and advance this theorem as a full and sufficient explanation. Doubts and objections on the part of others arouse a spirited defence of this explanation, and the admitted difficulties of exact proof have led to its occupying a space in Social Credit literature out of all relation to its importance. It has almost seemed as if loyalty demanded that this theorem—which few other than Social Creditors accept—should be emphasised as one of the chief planks in the Social Credit platform.

But this attitude has a very special danger. Discovery, or fancied discovery, of a flaw in the "A+B" Theorem tends to throw doubt on the whole of Social Credit. This is particularly unfortunate in view of the already very wide measure of agreement about the *fact* of the deficiency of money on the buying side of the market. Without insisting one way or the other with regard to the accuracy of the "A+B" Theorem as generally accepted by advocates of Social Credit, such theorem is, at most, merely complementary to the re-investment explanation. Re-investment as one explanation of the disparity between prices and purchasing-power is accepted by many of the new economists. It is obviously of the greatest importance to emphasise the consequences of this disparity and the proper remedies for the same, and it is in his insistence on the inevitability of this deficiency and in his enunciation of principles for overcoming it, that Major Douglas has made so very valuable a contribution to economic thought.

APPENDIX B

MONETARY DEMAND

(Reference, Sections 28 and 30)

Figures given in paragraph 81 of the Macmillan Report and in the Statistical Summary published monthly by the Bank of England show the amounts of the current and deposit accounts of the London Clearing Banks for the eighteen years 1919-1936 to be as shewn in Columns 2 and 3 of the Table opposite.

There is no reason to suppose that the proportionate variation in the amount of money in circulation will differ very greatly from the ascertained variation in the total deposits of the London Clearing Banks which, among them, cover nine-tenths of the banking business of the whole country. The dotted line on the diagram facing page 82 is therefore drawn from the figures given in Column 4a of the Table.

Columns 5 and 5a are self-explanatory. The broken line on the diagram is a graph of the figures given in Column 5a. It is suggested that this graph represents with tolerable accuracy variations in the general speed of spending within the period covered, including the hectic rush to spend during the brief inflationary post-war period, and the comparative reluctance to spend experienced later.

As monetary demand varies both with the amount of money in circulation and the speed with which it circulates, it would seem that a general approximation to the proportionate variation in effective demand can be obtained by combining the figures given in Columns 4a and 5a. The resulting figures, given in Column 6 of the Table, are

TABLE TO APPENDIX B.

1. Year	2. London Clearing Banks		4a. Scaled (1925= 100).	5. Proportion of current to deposit accounts.	5a. Suggested speed of spending (1925= 100).	6. Estimated variations in money demand.	7. Suicides in United Kingdom.	
	Current Accounts (£ Millions)	Deposit Accounts (£ Millions)					Actual	7a. Scaled (1925= 100).
1919	1016	495	94½	205%	151	143	—	83
1920	1098	622	107½	177%	130	140	—	85
1921	1025	729	109½	141%	104	114	—	92
1922	998	709	106½	141%	104	111	4209	93
1923	966	649	101	149%	110	111	4326	95½
1924	950	666	101	143%	105	106	4148	92
1925	923	680	100	136%	100	100	4531	100
1926	921	688	100½	134%	98	98½	4936	109
1927	932	727	103½	128%	94	97	5490	121
1928	954	755	107	125%	91	97	5420	119
1929	940	798	108½	118%	87	94½	5529	122
1930	921	820	109	112%	82	89	5607	124
1931	895	804	106	111%	81	86	5703	126
1932	867	883	109	98%	72	79	6314	141
1933	978	930	119	105%	77	91½	6247	140
1934	953	886	115	108%	79	91	6148	135½
1935	1054	904	122½	116%	86	105½	5741	124½
1936*	1197*	982*	131†	122%	90	118	—†	—

* Including figures of the District Bank which joined the London Clearing on January 1st, 1936.

† After rectification in respect of District Bank figures.

‡ Figures not available at time of writing.

expressed graphically by the unbroken black line on the diagram.

Finally, there are given in Column 7 the number of cases of suicide in the United Kingdom over the years 1922 and 1935 and in Column 7a the same figures appropriately scaled. It will be seen how closely the figures of monetary demand and suicides correspond—the number of cases of suicide rising and falling as the estimated monetary demand falls and rises. Further comment would seem unnecessary.

It is interesting, also, to compare the estimated variation in monetary demand with the known variations in wholesale and retail prices. These are shown graphically in the Diagram facing page 87, which is based on the figures in the following Table.

1 Year	2 Monetary Demand (Year 1920 =100)	3	3a	4	4a
		Retail Price	Price Level	Wholesale Price	Price Level
		(July, 1914 =100)	(Year 1920 =100)	(Year 1913 =100)	(Year 1920 =100)
1920	100	249	100	307	100
1921	81	226	90	197	64
1922	79	183	74	159	52
1923	78½	174	70	159	52
1924	76	175	70	166	54
1925	71½	176	71	159	52
1926	71	172	69	148	48½
1927	70	167½	67	141½	46
1928	70	166	66½	140	45½
1929	67½	164	65½	136½	44½
1930	64	158	63½	119½	39
1931	62	147½	59	104	34
1932	56½	144	57½	101½	33
1933	66	140	56	101	33
1934	65	141	56½	104	34
1935	75	143	57½	105	34

In Column 2 there will be recognised our old friend, estimated monetary demand, but this time re-scaled on the basis that demand for the year 1920 is represented by 100.

The figures in Column 3 are taken from the Mean Index Numbers of Retail Prices published by the Ministry of Labour, based on a comparison with July, 1914. Column 3a shows the same figures rearranged as variations from the actual price level in 1920. The figures in Column 4 are taken from those published by the Board of Trade, giving variations in the level of wholesale prices compared with the year 1913. For purposes of comparison, however, it is more convenient to rescale these figures also, taking the level of the year 1920 to be represented by 100. The rescaled figures are given in Column 4a.

APPENDIX C

THE STOCK EXCHANGE

(Reference, Section 32)

The chief importance of the stock-market is, for us, the fact that it provides, indeed necessitates, a money-cycle additional to and independent of the producer-consumer cycle. So there is always present the possibility of diversion of money from the one to the other, and added difficulty in the way of those who would try to operate an enlightened money policy within the framework of the present system. This possibility of diversion is also a danger to be guarded against by those who advocate monetary measures of a more heterodox character.

It may be useful as well as interesting to give a brief and simple account of the stockmarket and its place in the present scheme of things. The following is taken from pages 488 to 492 of G. D. H. Cole's book, "*The Intelligent Man's Guide Through World Chaos*" :

"The stock markets of the world are not and could not be merely agencies for transferring the ownership of shares and bonds from one person to another : for if they confined themselves to this type of service, it would be bound often to happen that no one wanted to buy on a particular day just those shares which an individual investor desired to sell, and no one had just those shares for sale which the individual investor wished to buy. This difficulty has been got over by the existence on all organised stock markets of a body of professional operators—stock-jobbers as they are commonly called—who are prepared to make a market at any time in any class of shares quoted on the Exchange in question.

"The stock-jobber, within the range of the particular classes of shares and bonds in which he operates, is always prepared to buy at a price and to sell at a price, and it is by this means always possible for the ordinary investor who owns shares or bonds to find a market for them. The stock-broker, properly so-called, deals only on commission and buys and sells not on his own account but solely on behalf of his clients. The stock-jobber, on the other hand, operates on his own account and thereby serves as a means of making a market for the brokers and their clients. . . .

"The capital value of stocks and shares is ordinarily and at bottom based on the expectation which people have of their capacity to yield income in the future. The stock-jobber, however, is unlike the ordinary investor in that he usually buys stocks and shares not with the intention of holding them but rather with a view of selling them again in the immediate future at a profit and it will be worth his while to buy a stock, even if he does not believe in its long-run income-producing capacity, provided that he thinks that during the next few days or weeks it is likely . . . to appreciate further in capital value.

"Of course this attitude is not confined to inside professional operators on the Stock Exchanges. It applies fully as much to the large number of outside operators who are not members of the Exchange, but are equally professionals, concerned with speculation rather than investment ; and it applies also to any section of the capital-owning public which develops at any time a speculative turn of mind, and takes to buying stocks and shares with a view, not to long investment, but to speedy sale at a profit.

"But the incursion of the outside professionals and of the general public into this form of speculation radically alters its effects, for this incursion is highly intermittent, and they are exceedingly apt to be carried away by speculative mania in times of boom. Thus in the New York stock market boom of 1929, the yield of favoured industrial stock was pushed down through

the speculative rise in capital values to well under 2% before the boom showed any sign of breaking. As at the same time it was possible even in the New York stock market to buy high-class bonds yielding a 5% return, it is obvious that the purchase of industrial stocks and shares was being made, not with a view to their real income-producing capacity, but almost solely with a view to their further capital appreciation on the assumption of the continuance of the speculative mania. Every buyer was in effect gambling on other buyers' insanity, and huge paper fortunes were being made, not because the real income-yielding capacity of industrial stocks was increasing, but solely because their capital value was being pushed up to absurd heights by speculators who intended to get out of the particular stocks which they bought while the going was still good . . .

"The amount of money that either professionals or outsiders can use speculatively on the stock market is by no means limited to the free money which they actually possess. In the first place they can pledge securities which they already hold and so get bank credits which they can use in speculation. Nor is this all, for in all the leading stock markets the practice has also developed of allowing transactions "on margin." By this is meant that a buyer of shares is not called upon at any stage to pay over the full price of the shares which he buys or even necessarily to buy any shares at all. He has merely to deposit a sum of money sufficient to cover the estimated likelihood of fluctuation in the capital value of the shares, at the same time giving his broker instructions to sell if the shares fall to such a point as to threaten his cover with exhaustion. . . .

"Stock market dealing of this type is pure gambling on the anticipated fluctuation in the market prices of stocks and shares. It involves no real transfer of the ownership of shares from one person to another ; and there is accordingly no reason why it should be limited to the number of shares actually available

for sale in the market. It can be pushed to any length, provided that the professionals and amateurs can get either their banks or anyone else to grant them the necessary credit."

APPENDIX D
BEFORE THE FACTORY ACTS

(Reference, Section 45)

In the churchyard at Silkstone, near Barnsley, there is a monument bearing on the front of it the following inscription :

"Take ye heed, watch and pray, for ye know not when the time is." Mark, XIII Chapter, 33 verse.

THIS MONUMENT

was erected to perpetuate the remembrance of an awful visitation of the Almighty which took place in this parish on the 4th day of July 1838.

On that eventful day the Lord sent forth His Thunder, Lightning, Hail and Rain, carrying devastation before them and by sudden irruption of Water into the Coalpits of R. C. Clarke, Esq., twenty-six human beings whose names are recorded here were suddenly summon'd to appear before their Maker!

READER REMEMBER!

Every neglected call of God will appear against Thee at the Day of Judgement.

Let this solemn warning then sink deep into thy heart and prepare thee that the Lord when he cometh may find thee
WATCHING.

On the right and left sides are inscribed the names and ages of the victims of this disaster, so piously, vividly and complacently recorded. The right side reads thus :

"Boast not thyself of to-morrow." Proverbs, XXVII
Chapter, 1 verse.

The mortal remains are deposited in the Graves as
undernamed.

1st Grave beginning from the North end

George Birkinshaw	Aged 10 Years	} Brothers
Joseph Birkinshaw	Aged 7 Years	
Isaac Wright	Aged 12 Years	} Brothers
Abraham Wright	Aged 8 Years	

2nd Grave.

James Clarkson	Aged 16 Years
Francis Hoyland	Aged 13 Years
William Atick	Aged 12 Years
Samuel Horne	Aged 10 Years

3rd Grave.

Eli Hutchinson	Aged 8 Years
George Garnett	Aged 9 Years
John Simpson	Aged 9 Years

4th Grave.

George Lamb	Aged 8 Years
William Womersley	Aged 8 Years
James Turton	Aged 10 Years
John Gothard	Aged 8 Years

The third side of the monument, that on the left,
runs as follows :

"Therefore be ye also ready." Matthew, XXIV
Chapter, 44 verse.

The mortal remains of the Females are deposited
in Graves at the feet of the Males as undernamed.

1st Grave beginning at the South end

Catherine Garnett	Aged 11 Years
Hannah Webster	Aged 13 Years
Elizabeth Carr	Aged 13 Years
Ann Moss	Aged 9 Years

2nd Grave.

Elizabeth Hollings	Aged 15 Years
Ellen Parker	Aged 15 Years
Hannah Taylor	Aged 17 Years

3rd Grave

Mary Sellors	Aged 10 Years
Elizabeth Clarkson	Aged 11 Years
(She lies at the feet of her Brother James Clarkson)	
Sarah Newton	Aged 8 Years
Sarah Jakes	Aged 10 Years

The fourth side bears a single phrase—"*There is but a step between me and death,*" 1st Samuel, XX Chapter, 3 verse.

Even at the present day coal-mining is a perilous and arduous occupation, in spite of modern methods of working, lighting and ventilation. The conditions of life in the coalpits of a hundred years ago can nowadays hardly be imagined. Yet it was in such places that Joseph Birkinshaw (aged 7) and Sarah Newton (aged 8) worked and died.

APPENDIX E
BILLS OF EXCHANGE
(Reference, Section 52)

A bill of exchange is what is known in law as "*a negotiable instrument*." Disney, in his "*Elements of Commercial Law*."* explains that

"a Negotiable Instrument is a document containing a contract, to the ownership of which document are attached all rights under the contract. Whoever is in *bona fide* possession of such a document is presumed to be the lawful owner of it, and therefore entitled to enforce all rights under the contract. The document, and with it all rights under it, is transferred either by mere delivery, or by delivery accompanied by indorsement, and the person who in good faith takes it, takes it free from any rights which might be enforced against the person from whom he takes it, and free from any defect in the title of such person."

Besides bills of exchange there are other kinds of negotiable instruments, important among which are cheques and promissory notes. Some are universally recognised as negotiable : others are only so recognised in certain countries. Bills of exchange, however, are universally acknowledged to be negotiable.

The following are three simple types of Bill, taken from Mr. Thomas' book to which reference has already been made.†

COMMERCIAL.

No. 735.

Fcs. 7205.50

Manchester, May 10, 1920.

Fourteen days after date, pay this bill of exchange

* At page 126.

† "*The Principles and Arithmetic of Foreign Exchanges*."

to our order, the sum of seven thousand two hundred and five francs, fifty centimes, value received, which place to account as per advice.
A. Butler.

To Messrs. Albert Frères,
Lyons.

BANKERS' LONG BILL.

No. 619.

£360.10.0.

Reichsbank, Berlin.

January, 17, 1920.

Ninety days after sight of this our First of Exchange (Second and Third of same tenor and date being unpaid), pay to the order of Messrs. Jacobs and Company, the sum of three hundred and sixty pounds, ten shillings sterling, value received, which place to account of this Bank as advised.

Oswald Schmidt, Manager.

To Messrs. Coutts and Co.,
London.

BANKERS' SIGHT OR DEMAND DRAFT.

First National Bank of New York.

\$6,000.

London, May 20, 1920.

On demand, please pay to Messrs. Robins and Park or order the sum of six thousand dollars.

Abram Lincoln, Manager.

To The First National Bank of New York.
New York, U.S.A.

The wording of the second of the above examples may be a little obscure until it is explained that bills on foreign places are usually drawn in a set of two or three called First, Second or Third of Exchange. The three parts forming one bill are exactly like, except for number and reference to the others of the set, but only one part is "accepted" and only one part stamped. The object of

having three parts is to prevent loss in transmission, and also to facilitate negotiation. The "First of Exchange" can be sent to the drawer for acceptance : the Second can follow by a later mail : the Third can be negotiated at once. When the three parts reach their destination, they are attached together and are henceforward regarded as one bill.

APPENDIX F

GUERNSEY STATES' NOTE ISSUE

(Reference, Section 71)

The following is re-printed from the issue of "*Prosperity*" for April, 1933, and thanks are due to the Editor and Publishers of that paper* for their ready permission. The Article was contributed by Mr. John Le Marquand, former Constable of St. Lawrence, who secured his information from a lecture delivered some years ago by another Mr. Le Marquand, Supervisor to the States of Guernsey.

"The markets were the first public work of any magnitude to be financed by means of a note issue, though States notes had been issued for other purposes at an earlier date. The issue of States notes was first mooted some years before the acquisition and improvement of the Markets was first thought of, for on the 24th May, 1811, the States were invited to appoint a Committee to consider, *inter alia*, the advisability of issuing States notes ; but this met with little encouragement, for on the 14th November, 1811, the Committee reported that they were unanimously of opinion that the proposal was of doubtful propriety, and as a result the States decided 'd'abandonner entierement le project d'emettre lesdits billets.'

"In 1815 the need for improving the Public Market (at that time an open one) was beginning to be felt, and the States appointed a Committee to consider the matter. This Committee reported on the 29th October, 1816, making recommendations for the acquisition of property and the erection of a covered market, and recommended, as a means of furnishing the wherewithal to carry out this project, the issue of States notes to the value of £6,000.

"The arguments put forward at this time in favour of a States' issue are interesting, and the following is a

* "*Prosperity*" Office, Payne's Lane, Coventry.

rough translation of an extract from the Committee's report :—

“The Committee recommends that the expense should be met by the issue of States notes of £1 stg. to the value of £6,000, of which the issues will be simple, and will not offer the least difficulty when the expenditure and receipts are taken into consideration, and that these notes will be available not only for the payment of the new market, but also of Torteval Church, roads to construct, and other expenses of the States, and above all when one considers that the banks already have their notes in circulation for more than £50,000, whereas it is now proposed to restrict the States' issue to £6,000. The notes to be printed on the best paper, expressly manufactured, with the word 'States' in the paper (watermark?), and from a plate engraved by the best artist, each note numbered and bearing the signatures of three men well known in the Island ; the risk of forgery is nothing to fear, as no one would go to the expense and risk of counterfeiting with so little hope of success. In this manner it appears easy to provide a permanent revenue to the States, sufficient not only to provide for the purchase and erection of the market, but also to create an amortisation fund to extinguish the debt of the States.’

“The proposals were, however, rejected, not apparently on account of objection to the financial policy proposed, but because the acquisition of the markets was not deemed desirable.

“On the 17th October, 1816, the first issue of States' notes was authorised, for a sum of £4,000, for coast preservation works, Torteval Church, and Jerbourg Monument. These notes were issued subject to redemption, in three stages, on the 15th April, 1817, and every Saturday thereafter ; the 15th October, 1817, and 15th April, 1818, and not for re-issue. The Committee's report recommending this issue states : ‘In this manner, without increasing the debt of the States, it will be possible to finish these

works, leaving sufficient money in the exchequer for other needs.'

"It is also interesting to note that at the time the Supervisor was a very much occupied person, as the Bailiff in his remarks says 'The Supervisor, and the members of the Court generally have already too much to do, to impose upon them the work of issue,' and it was recommended and adopted that this be entrusted to a Committee of three '*personnes de confiance*' exclusively charged with this duty who will pay on the order of the Supervisor, and receive them back, when paid in, from the Receiver of Impot, for cancellation.

"The Supervisor of that time with this revenue and expenditure of £14,000 odd was too busy to issue and to attend to the cancellation of £4,000 worth of notes. The Supervisor of to-day, however, with a revenue and expenditure for which he is responsible of nearly £900,000, as well as a multitude of other things besides, has to find time for an issue of £200,000.

"In October, 1819, a further attempt was made to acquire the site and to construct the markets to be financed by means of a note issue, but again met with failure, and it was not until May, 1820, that the Committee, faint yet pursuing, met with success, and were authorised to issue State notes to the value of £4,500 for the markets, redeemable in 10 years, out of Impot duties and the revenue from butchers' shops. This issue was quickly followed by others, and in September, 1821, the Finance Committee reported that there were, other than notes for the markets, £5,300 notes in circulation, and the States accepted the recommendation of that Committee that this number could be increased to £10,000 without danger, as the most advantageous method of meeting the debt, both to the States' finances and to the public, who far from being averse to taking such notes, seek them eagerly.

"The markets were opened in October, 1822, and there is a legend that in the course of the ceremony the Bailiff—Daniel de Lisle Brock—destroyed by fire

a number of cancelled notes which had served in its erection. Reference, however, to three newspapers—the 'Star,' the 'Gazette,' and the 'Mercure,' make no reference to this ritual which therefore, I think, must be regarded as legendary.

"In 1824 a further £5,000 was authorised for the markets, and in March, 1826, the Finance Committee was authorised to increase the issue up to a total of £20,000 so as to enable the erection of Elizabeth College, and certain parochial schools to be carried out.

"In May, 1826, the issue of a series of £5 notes was authorised.

"In every case the States were most careful in the issue, signatures and cancellation of notes, and the import of wines and spirits was their guarantee.

"By 1829 the States' note issue in circulation exceeded £48,000, and in 1837 over £55,000 were in circulation, and in the *Billets d'Etat* frequent references were made by eminent men of those times that had it not been for the issue of States' notes important public works, such as roads and buildings, could not have been carried out, and this was done without interest cost to the Island, the result being that the influx of visitors was increased, commerce was stimulated, and the prosperity of the Island vastly improved.

"For the first ten years or so after the first notes were issued, no opposition seems to have been encountered, but in 1826 certain members of the States, some of them members of the Finance Committee, considered that the consent of the King in Council should be obtained for capital works, contending that the financing of such works by note issue was contrary to the order in Council of 1819 'that the States should not exceed the amount of their annual income without Royal Consent.'

"That fine patriot, Daniel de Lisle Brock, spiritedly contested this opposition in his comments published in the *Billet d'Etat* for 22nd November, 1826, with the result that the proposition to refer the matter to the

Council was defeated. Three years later, the same opponents to the note issue receiving no support from the States, laid their complaint before Privy Council, which, in turn, was referred by the Privy Council to the States asking for an explanation. The States appointed the Finance Committee to draft a reply, and their answer is published in the Billet for 23rd December, 1829, a masterpiece worthy of study, and this seems to have been the last heard of that matter.

"In 1827 the Old Bank was founded, followed by the Commercial Bank in 1830, and both Banks circulated their own notes, and the Island appears to have been flooded with paper money, so much so that in September, 1836, the matter was submitted to the consideration of the States, and again the Bailiff—Daniel de Lisle Brock—makes a strong appeal to the States in favour of the right of the States to issue notes being supreme to that of the Banks, a and Committee was named to confer with the Banks and to defend the rights and interests of the States and the community, so that the circulation of States notes should not be prejudiced.

"From the report of the debate one would have imagined that the result would have been that the private issue of the Banks would have been withdrawn but the truth was stranger than fiction, for the result was an agreement between the States and the Banks that the former should withdraw £15,000 worth of their notes, and that in future their issue should not exceed £40,000. This agreement remained in force up to the outbreak of war in 1914, when the States notes in circulation valued £41,206.

"As far as I am aware, only one attempt at forgery was made, namely in 1895. The forgery, however, was very crude, and was soon discovered by Mr. Le Messurier of the Old Bank. As a result, however, the whole note issue was withdrawn and replaced by a new issue, which we used to know as 'greenbacks.'

Immediately following the outbreak of war, the demand for money was such that the Royal Court passed an Ordinance making States notes and those of the Banks legal tender, and limiting the issues of the Banks to that at the moment in circulation, the result being that the States then got their own back on the Banks, as their issue was unlimited, and the demand was so great that notes had to be printed in Guernsey to keep things going, and both the Star Company and the Guernsey Press Company did remarkably good work in turning out, at very short notice, very serviceable 5/- and 10/- notes respectively ; and I well remember the hectic time we had at the office in keeping pace with the demand. As supplies on special watermarked paper could be obtained from England, these temporary notes were withdrawn and replaced. The note issue of the States rose to £142,000 at 31st December, 1918.

"The next event of importance was in 1921, when the currency was changed to British Sterling, and as new notes could not be obtained in time, existing issues were over-printed locally with the word 'British.' Advantage was taken of this change of currency necessitating a new note to make the same of more convenient size ; but it is interesting to note that the same firm that printed the first issues is still to-day supplying us with our requirements, viz., Messrs. Perkins, Bacon and Co.

"It will have been noticed that the first States notes were signed by 'three gentlemen of repute,' later reduced to two. Subsequently two Jurats of the Royal Court were authorised to sign. In January, 1921, these signatures were dispensed with and a facsimile of the Supervisor's signature was authorised with the actual signature of either the States Accountant or the States Cashier, which still applies.

"One frequently hears remarks about our notes being dirty and limp. We do not adopt the same procedure as the Bank of England, who never re-issue a note

once it returns to them. As notes return to the States Office, they are carefully sorted, and those fit for re-circulation are re-issued. The others are cancelled. The average number in circulation approximates to £160,000, and the number destroyed and replaced by new is between £50,000 and £60,000 per annum ; so that it will be seen that we are entirely replacing our whole issue every three years, which involves an enormous amount of time and work.

“The amalgamation of the Local Banks with English banking concerns resulted in the cessation of the private note issues of the Banks, and we are indebted to the co-operation of the Guernsey branches of the English Banks in issuing local notes unless Treasury notes are specifically asked for. The States’ note issue to-day fluctuates between £150,000 and £200,000 and is undoubtedly a source of great benefit to the Island. A loan of £175,000 at 5 per cent., redeemable in 30 years, would cost the States annually £11,383 in interest and redemption. Our note issue for approximately the same sum costs us £450 per annum ; so that it is up to every patriotic Guernseyman to use States notes in his local transactions, and by so doing keep down the taxation which bears on each one of us.”

APPENDIX G

THE GOLDSBOROUGH BILL

(Reference, Sections 82 and 84)

On May 21st, 1937, during the first session of their 75th Congress, Mr. Goldsborough brought before the House of Representatives of the United States of America a Bill (H.R.7188) for the introduction of some measure of Social Credit. Its text was as under.

A BILL

To provide a national monetary policy which will have a definite relationship to the requirements of domestic industry and trade under the conditions imposed by our power economy, which will increase production and consumption to the limit of the country's power to produce, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—COMPENSATED RETAIL PRICES

DECLARATION OF POLICY

SECTION I. It is hereby declared to be the policy of Congress to adjust and control the price of commodities sold at retail so as to make it conform to the volume of purchasing power in the hands of the public, and to regulate the purchasing power so that the production of wealth in this country shall be maintained in full measure.

SEC. 2. In pursuance of such policy interbank currency notes are to be issued for financing a discount on prices to consumers at retail, as hereinafter provided.

SEC. 3. As used in this title—

(a) The term "interbank currency notes" means United States currency circulating only within the

banking system for the purpose of giving effect to the issue of consumer credits herein provided.

(b) The term "retail discount rates" means a percentage of the current price level of goods sold at retail to be determined by the National Credit Commission as hereinafter provided, and to be published by the Secretary of the Treasury, which discount is to be applied as a discount on the price of goods and services offered by retailers.

(c) The term "compensated price" means the retail price of goods and services after the application of the retail discount, the amount of which discount is reimbursed to the retailer as hereinafter provided.

(d) The term "retailer" means any seller of goods, including dwellings and services, to ultimate consumers who are natural persons, for their individual or family use and not for resale, and also includes service corporations insofar as they supply services at retail to the public for personal or family use.

(e) The term "services" means passenger transportation, distribution to homes of gas and electricity for domestic purposes, rental of homes, hospitalization schools and theaters.

(f) The term "national credit" means the amount of national wealth against which money may safely be issued without resulting in inflationary price levels.*

(g) The term "national money" means such forms of the circulating medium of exchange that act as purchasing power or are used for the storage of value, and includes bank deposits, bank checks, currency, legalized note issues, and coins.

DETERMINATION OF RETAIL DISCOUNT

SEC. 4. (a) Beginning ninety days after the passage of this Act, the retail discount rate for each month

* This definition is peculiar to this Bill, and does not coincide with the definition of "National Credit" where found elsewhere in Social Credit literature.

shall be determined by the Federal Credit Commission and proclaimed by the Secretary of the Treasury on the first day of each quarter, or at such times as the Federal Credit Commission shall recommend.

(b) Upon the passage of this Act and until the retail discount rate is determined and proclaimed as above provided, the retail discount rate shall be 15 per centum. Thereafter the retail discount shall be based upon that percentage which the idle productive capacity of the Nation bear to the total productive capacity. The method of arriving at these figures shall conform to the existing practice of establishing index numbers for trade.

(c) No retail discount rate shall be declared unless productive capacity, ascertained as above prescribed, shall exceed consumption by at least 15 per centum. The retail discount rate proclaimed by the Secretary of the Treasury shall be the rate determined by the Federal Credit Commission, except that the rate proclaimed shall not exceed the next preceding rate by a figure of more than 5 per centum. After proclamation of the discount rate the data used in the determination thereof shall be made a matter of public record.

(d) It shall be unlawful for any member or employee of the Federal Credit Commission to disclose the retail discount rate or any information received or employed in connection with the determination of the retail discount rate before said rate shall have been proclaimed by the Secretary of the Treasury. Whoever violates any provision of this sub-section shall be dismissed from such membership or employment and shall be punished upon conviction of such violation, by a fine of not more than \$1,000 or imprisonment for not more than one year, or both.

APPLICATION OF RETAIL DISCOUNT RATE

SEC. 5. After the passage of this Act the retail discount shall be applicable to purchases of goods and services from retailers as defined in this Act, made

by consumers who are natural persons, for the personal use of the consumer or his family and not for resale, trade, or manufacture. The retail discount shall be paid in the manner prescribed by the regulations of the Secretary of the Treasury, and the disbursements of said retail discount in trade shall be evidenced by suitable vouchers or forms prescribed by the Secretary of the Treasury. As hereinafter provided, said vouchers shall be used in reimbursing the retailer for his disbursement of the retail discount through selling goods or services at the discount price.

The intent of this Act is to provide a continuous settlement through the banks to the retailers for the disbursements of the retail discount as provided in section 7 of this title.

CONTRACTS AND REGULATIONS

SEC. 6. (a) No retailer shall be entitled to dispense the discount unless he has applied to the Secretary of the Treasury for, and has received, a certificate of authority or license, and has agreed to conform to all regulations established by the Secretary for the carrying out of the provisions of this Act. The Secretary of the Treasury may suspend or revoke any certificate of authority or license issued by him to any retailer, after reasonable notice and opportunity for hearing to the retailer, upon satisfactory evidence that the said retailer has not conformed to the regulations under which his certificate or license has been issued

(b) Whoever falsifies any account relating to the issuance of the discount at retail, or the goods pertaining thereto, shall be guilty of a misdemeanor. Whoever by collusion falsifies accounts arising in the costs of production and distribution to the retailers shall be guilty of conspiracy to defraud. Whoever violates any provision of this subsection shall be punished, upon conviction thereof, by a fine of not more than \$1,000 or imprisonment for not more than one year, or both.

*SETTLEMENT OF DISCOUNT ALLOWANCES
THROUGH BANKS*

SEC. 7. (a) In order to compensate retailers for their disbursal of the retail discount, all banks in the United States, its Territories, and possessions, engaged in inter-state commerce, are hereby authorized and directed to accept all vouchers evidencing disbursal of the retail discount, and included in the regular deposits of their customers who hold licenses to disburse the discount, and to honor such vouchers as if they were cash deposits, in the amount of the disbursements evidenced thereby.

(b) Banks entering credits to depositors on account of retail-discount vouchers shall charge them to their interbank currency notes account, and the Secretary of the Treasury or his agent, shall deliver to the said banks, on request, interbank currency notes to a face value equivalent to the amount of the retail vouchers entered in the books of the bank. Every amount of interbank currency notes delivered to any bank shall be charged by the Treasury to the bank in the books of the Treasury. The liability of the bank to the Treasury thereby set up shall be that of fiduciary and agent for the carrying out of the provisions of this Act, and the banks shall be entitled to make a reasonable service charge to their depositors for the services rendered. The amount of such charge shall be fixed by the Federal Credit Commission.

(c) Retailers' deposit accounts written up by the method herein provided shall be treated by all banks as part of their circulating deposits just as if the write-up had occurred through the discounting of their customers' own notes, and the checks drawn against them shall circulate in the usual manner.

(d) Any person who makes a false entry on a retail discount voucher, or who presents a false retail discount voucher to a bank for deposit, or any retailer who manipulates his sales totals in obtaining settlement of the compensated prices shall be punished, upon conviction thereof by a court of competent

jurisdiction, by a fine of not more than \$10,000, or by imprisonment for not more than two years, or both, and in addition, his license to dispense the discount shall be revoked.

TITLE II—FEDERAL CREDIT COMMISSION

ORGANISATION OF COMMISSION

SECTION 201. (a) To carry out the purposes of this Act there is hereby created a Federal Credit Commission (referred to in this title as the "Commission"). The Commission shall be composed of seven Commissioners who shall be appointed by the President by and with the advice and consent of the Senate. No person shall be eligible for appointment as Commissioner unless he is a citizen of the United States, and in the judgement of the President qualified to develop expert knowledge of industrial, economic, and statistical problems and to perform efficiently the duties required by this Act. Not more than four of the Commissioners shall be members of the same political party. . . .

(b) The President shall annually designate one of the Commissioners to act as Chairman of the Commission. Each Commissioner shall receive a salary of \$20,000 per year. No Commissioner shall engage in any other business, vocation, or employment than that of serving as Commissioner.

(c) The Commission shall have authority to employ and fix the compensation of such special experts, examiners, statisticians, clerks, and other employees as it may from time to time find necessary for the proper performance of its duties.

DUTIES OF THE COMMISSION

SEC. 202. (a) There is hereby created an account in the Treasury of the United States to be known as the national credit control account. After the passage of this Act the Commission shall determine annually the value of the unused capacity of industries and people of the United States for the production of wanted goods and services, which amount shall be

credited to the national credit control account. Each year the amount in the national credit control account which shall not have been drawn upon in that year shall be wirtten off. The level of values used in determining the amount of the national credit control account shall be the same as in the determination of the retail discount rate. The decisions of the Commission as to the national credit control account shall be final. Said decisions shall be reported by the Commission to the Secretary of the Treasury and said reports shall be used by him as the basis for the establishment and maintenance of the national credit control account.

(b) The Commission shall use all reasonable ways and means to determine the retail discount rate as accurately as possible strictly in accordance with the methods prescribed in section 4 of title I of this Act and without any extraneous influence or advice. The decisions of the Commission as to the retail discount rate shall be final.

(c) The Commission shall establish and maintain a statistical bureau to collect and co-ordinate the data necessary for carrying out the provisions of this Act and shall be guided in its decisions by the facts disclosed. All statistical departments of the Federal Government shall furnish such aid and information as may be required by the Commission. The Commission shall have authority to call for data and statistics from all economic organizations, trade associations, and private business which may be required in the judgment of the Commission for carrying out the purposes of this Act.

(d) It shall be the duty of the Commission to fix the service charge for the handling of retail discount vouchers by the banks for their customers as prescribed in this Act.

INTERFERENCE WITH FUNCTIONS OF THE COMMISSION

SEC. 203. (a) It shall be unlawful for any person—
(1) to prevent or attempt to prevent, by force,

intimidation, threat, promise, or in any other manner, any member or employee of the Commission from exercising the functions imposed upon the Commission ;

(2) to induce, or attempt to induce, by like means, any such member or employee to make any decisions or order, or to take any action with respect to any matter within the authority of the Commission ; or

(3) to induce, or attempt to induce, by like means, any such member or employee to disclose any information whatever except through the channels provided in this Act.

(b) Whoever violates any provision of this Section shall be punished, upon conviction of such violation, by a fine of not more than \$1,000 or imprisonment for not more than one year, or both.

TITLE III—INTERBANK CURRENCY AND BANK CREDIT CONTROL

SEC. 301. (a) The Secretary of the Treasury is hereby authorised and directed to issue interbank currency notes through the Federal Reserve System or any other agency designated by him, in such denominations as may be found convenient, and in such amounts and at such times as may be required in order to effectuate the provisions of this Act. The total amount of the initial issue of such currency shall not exceed \$10,000,000,000.

(b) It is the intent of this Act that the \$10,000,000,000 of interbank currency herein provided and such other sums of like nature which may be provided shall constitute a revolving fund for the stabilisation of domestic trade by maintaining purchasing power in the hands of the public through adjustment of the retail price level and so as to avoid undue expansion and inflationary conditions.

(c) Such interbank currency notes as may be issued under the provisions of this Act shall be advanced only to the banks and shall be used by them solely

as backing for the credits issued to retailers to effectuate the compensated price as provided herein. Thereafter such currency notes shall be received as legal tender throughout the banking system, in the clearing houses, and all correspondents authorized to make interbank settlements but not outside of the banking system.

(d) Interbank currency notes shall be accepted for all forms of Federal taxation payable directly by the banks, and may be used by them as bank reserves, dollar for dollar, but not as a medium for expanding private credit in the form of loans built on fractional reserves.

(e) Upon the findings and advice of the Federal Credit Commission indicating that inflationary conditions are tending to arise, the Secretary of the Treasury is hereby authorized and instructed to recall from the banks such amounts of the interbank currency in their hands as may be necessary to establish and maintain monetary equilibrium.

(f) Upon receipt of said notice the banks shall reduce their outstanding credits so as to increase their surplus reserves sufficiently to permit the return of the proportion of the interbank currency notes held by them to the Treasury without impairing their required legal reserves

(g) Nothing in this Act shall be construed to prevent the use of open-market operations in Government securities or the readjustments of the discount rate by the Federal Reserve banks in maintaining stable conditions in the money market, and nothing in this Act shall be construed to affect the provisions governing the increase or decrease of the required reserves of banks enacted in the Banking Act of 1935, except that the Board of Governors of the Federal Reserve System shall have the power to increase the required reserves of all national and member banks up to and including 100 per centum.

(h) In the event of the banks having to face an emergency demand for currency by depositors beyond their ability to meet without dangerous forced liquida-

tion of their quick assets, said banks may apply to the Secretary of the Treasury for permission to convert interbank currency into national currency notes by presenting the former for exchange. Banks which have availed themselves of this privilege under pressure of circumstances shall proceed with the orderly realization of their reserves and the curtailment of their outstanding credits until they are again able to restore the national currency so borrowed and re-establish the circulating credits previously established by the interbank currency notes held by them.

TITLE IV—GENERAL PROVISIONS

SEC. 401. Any person who violates any of the provisions of this Act shall, in cases where no other punishment is expressly provided in this Act, be punished, upon conviction thereof, by a fine of not more than \$1,000 or imprisonment for one year, or both.

SEC. 402. The Secretary of the Treasury is authorized to make such rules and regulations as he may deem necessary to carry out the provisions of this Act.

SEC. 403. There are hereby authorized to be appropriated annually such sums as may be necessary to carry out the provisions of this Act.

SEC. 404. All laws and parts of laws inconsistent or in conflict with the provisions of this Act are hereby repealed to the extent of such inconsistency or conflict.

SEC. 405. If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

The foregoing takes the place of Mr. Goldsborough's former bill, H.R.9216, of the previous Congress. The new bill is shorter, and in some respects less interesting than its predecessor. In particular, the present bill contains no

provision for the issue of national dividends, nor any provision corresponding to that of H.R.9216 for the retirement of money by means of a negative price discount rate. Perhaps this latter is held to be sufficiently implied in the present bill, or perhaps it is thought to be an unnecessary precaution. Certainly H.R. 7188 seems less complete as a Social Credit measure than Mr. Goldsborough's former bill. Nevertheless, the bill is based on the fact of plenty, and aims first at enabling the people of the United States to consume and enjoy what they can already produce, and only secondly at increasing productive capacity.

The reason for withdrawing H.R.9216 and introducing this shorter and apparently simpler measure was explained by Mr. Goldsborough when he addressed Congress on the bill on June 8th, 1937 :

"I reached the conclusion that, while I had no reason to suppose it (H.R.9216) was not fundamentally sound, it would be better if I attempted to achieve the same result without interfering in any manner with the present banking set-up."

Accordingly, instead of incorporating the machinery for both national dividends and the compensated price in one complicated measure, Goldsborough has, perhaps wisely, presented a bill dealing only with the latter implement of Social Credit, thus clarifying the principle and simplifying the issue involved.

APPENDIX H

AN ENCYCLOPAEDIA OF THE NEW ECONOMICS, IN TWELVE VOLUMES.*

Volume 1.

A Preliminary Consideration of the Nature and Sources of Money.

A fallacy prevalent yet
Is to think that the money we get
Is based upon gold :
It's not. What we hold
Is deposit, created by debt.

Volume 2.

In which is discussed the Problem of Monetary Expansion in Relation to Prices.

Additional money about
Would increase our well-being, no doubt,
Did not price-levels rise
With the money supplies
And cancel the benefit out.

Volume 3.

A Disquisition upon the Policy of Monetary Contraction, and its Salutary Effect upon the Character of the Common People.

How good for the soul in distress !
Whenever our trade's in a mess
Because of deflation
We find consolation
In knowing that coffins cost less.

* "A little nonsense now and then
Is relished by the wisest men."

Volume 4.

*Wherein is observed the Subordination of Democracy to
Plutocratic Domination.*

The people still flock to the poll
And think they have final control,
But really they dance
To the tunes of Finance,
And solace themselves with the dole.

Volume 5.

*A Dissertation upon Gold as the Basis of the Modern
Monetary System.*

The phrase "a gold basis" we feel
Is likely the truth to conceal,
For Money is Credit
(McKenna has said it)
And the basis of Credit is *real*.

Volume 6.

An Examination of the Causes of Industrial Stagnation.

Though Science has come to Man's aid
And all that he needs can be made,
The cunning device
That all costs enter price
Ensures that the price can't be paid.

Volume 7.

*An Investigation into the Problem of Surplus Production
and its Disposal.*

Although we produce more and more
We merely keep adding to store,
Till at last we destroy
What we may not enjoy
By the time-honoured method of War.

Volume 8.

*An Inquiry into the Application of Scientific Methods to
Industrial Processes, and the Consequent Displacement of
Human by Solar Energy.*

Machines do our labour to-day—
“Advancement of Science” they say,
But where is the pleasure
In hours of leisure
When freedom from toil means no pay?

Volume 9.

*In which are examined the Philosophic Implications of
Certain Proposals for the Proper Utilisation of the
National Credit.*

If means of production expand
And leisure is ours to command,
Why base on employment
The right to enjoyment
Of things that await our demand?

Volume 10.

An Explanation of the Underlying Principles of Social Credit.(1). *The Compensated Price.*

Says Science, "Come, take my advice,

"Don't pay for your benefits twice :

" Pay only the cost

"Of the goods that are lost

"In obtaining them. That's the Just Price."

Volume 11.

An Explanation of the Underlying Principles of Social Credit.(2). *Dividends for All.*

Not only by profit or wage

Should men live, but each sinner and sage

Should receive the full share

That is his as co-heir

Of the wonderful race-heritage.

Volume 12.

A Refutation of the Alleged Impracticability of Applying Special Credit Principles to the Financial System of a Single Community.

Although in the main one agrees

Gold is useful for trade overseas,

Internal exchange

We can surely arrange

On whatever sound basis we please.

Volume 10.

An Explanation of the Underlying Principles of Social

Credit.

(1) The Conventional Price.

Says Science: "Cost, take my advice."

"Don't pay for your benefits!"

"Pay only the cost of the benefit."

"Of the goods that are lost."

"In obtaining them. That's the Just Price."

Volume 11.

An Explanation of the Underlying Principles of Social

Credit.

(2) Dividends for All.

Not only by profit or wage.

Should men live, but each sinner and sage.

Should receive the full share.

That is his as of right.

Of the wonderful advantage.

Volume 12.

A Refutation of the Alleged Importance of Applying

Special Credit Principles to the Financial System of a

Single Community.

Although in the main one agrees.

Gold is useful for trade overseas.

Internal exchange.

We can surely arrange.

On whatever sound basis we please.



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