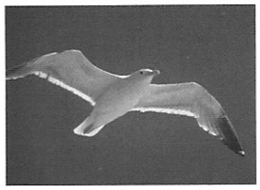
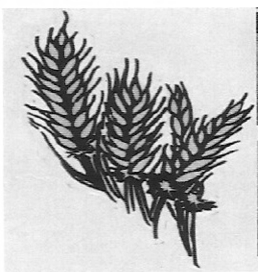
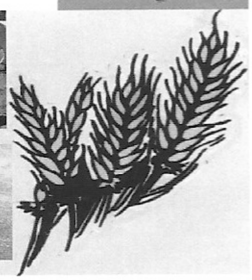
A$ + B$

AND ALL THAT



By
V. J. Bridger





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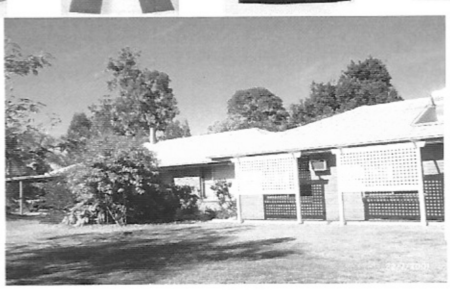

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The Cover

The Bird on the Wing is a symbol of freedom. It represents the ability to move around unrestricted by anything but nature and other predators.

Parliament House and the military planes are a symbol denoting political security whose function should be to administer the affairs of those whom they are elected to represent and the power to protect those interests. Together they represent Political Security.

The Wheat, Dairy Cow and Grain all represent the natural resources that provide for one of the basics of life – Food, Bread, Butter and Milk.

The Coat and Pants, the Coat and Dress represent another basic – Clothing.

The House represents the final basic – Shelter.

These three basics, Food, Clothing and Shelter together represent the basic necessities in economic life – Economic Security.

The Dollar sign is simply a symbol that represents the value that we place upon those basics. It is also the means by which the A + B Theorem is expressed. The symbol is not real but the basics are and that is the whole point of the exercise, which has been denied by those who philosophically and politically oppose the reality in Political and Economic Realism.

A + B

AND ALL THAT

A Critique on Critics

Compiled by

Victor J. Bridger

FOREWORD

Major C. H. Douglas, M. I. Mech. E., published his first book *Economic Democracy* in 1920, followed later in the same year by *Credit Power and Democracy*.

Considerable interest was shown in many centres to his proposal for consumer credits to bridge the gap between incomes and prices, that his research had uncovered. The basic fact on which he built his proposals became known as the A + B Theorem (not, be it noted, Theory).

This book records the arguments this statement of fact aroused among orthodox economists and their followers. Douglas' answers to his critics follow each challenge.

During the 1930s Douglas publicly debated his proposals with three prominent economists, and in the same period he wrote extensive replies to reputable authors of books and articles which claimed his Theorem was incorrect.

Mr. Vic Bridger, Fellow of The Social Credit Secretariat, UK has collected the verbatim reports of the debates. The written criticisms and Douglas's answers have also been included. The debates and articles reveal Douglas's speaking and writing in a more conversational style, in contrast to the succinct and precise presentation in his books when writing, on technical aspects of Social Credit and finance.

The information gathered into this book, not previously easily available, let alone in one volume, is immense. Students of Social Credit and others will, if they seek it, acquire a complete understanding of the flaw in the cost accounting system revealed by Douglas. However, it is not a book to pick up for a quick read on a wet day. Each sentence in both the accusations and answers needs a close and diligent scrutiny.

A + B and All That

The subject discussed is not easily understood, but a close and attentive study, will bring a realisation of how completely Douglas, with his practical experience, understood financing and costing in industry. This was in contrast to the complete confusion and apparent incompetence of his textbook opponents.

Vic Bridger has compiled a reference book for Social Crediters, and everyone else who desire to know exactly what Douglas did write. It will forever remain a tribute to Vic's initiative and enterprise. His determination to search over a number of years, for long forgotten journals, books and reports has its reward in the publication of this book. In addition, we must not forget the energy and patience required to draft and assemble the masses of material acquired in his search.

A + B and All That deserves the widest distribution.

L. Wood

INTRODUCTION

A + B AND ALL THAT

There is in human nature a particular trait that finds expression in the simplest of minds. It is something that can be seen in children in their dealings with their peers. Children can be very cruel in their attitudes to other children both physically and verbally. Their experience and knowledge has not developed to a stage where they can communicate or exhibit a reasoned or developed argument or discussion on whatever the topic may be. They resort to name-calling, ridicule, and sometimes abuse, down to outright physical violence. The bully has been described as one who has more brawn than brains. This same trait can also be attributed to many adults. Whilst it may be due to immaturity, lack of education, or some physical ailment in some, it cannot be excused for those who by education, and training, especially in a specific field who resort to the same tactics to counter an argument of someone whose ideas differ from their own. More is expected of these people who should exhibit more brains than brawn. With modern communications and those who are in control, it is evident that the maxim of might is right is resorted to in various facets. The inability of a person or a small number of persons to stand on an issue with the sheer might of the communications media and finance against them directed by a person or persons in opposition, is well known and needs no further expression.

In 1920 C. H. Douglas produced his *Economic Democracy* and exhibited an understanding of many of the problems with which society faced in those areas depicted in the title. Although a small publication it contained much that has eluded many people in their ability to grasp the significance of what he was saying. For many years he travelled the world lecturing and speaking on his ideas that were to become known as Douglas Social Credit.

He deplored the use of his name in connection with these ideas and as a result the ideas became known as Social Credit. Douglas may have brought attention to his findings but did not lay claim to the origin of the physical and metaphysical results of nature that were the basis of his expositions. Despite this, there were those persons, who for reasons best known to themselves continued to refer to Douglas Social Credit schemes or plans, even though it had been stated repeatedly that it was not a plan any more than the use of the words Democracy or Christianity. From 1919 to the early thirties there was little said in opposition to what Douglas had been saying but in the thirties there emerged a spate of writings by people who were determined to "prove" that Douglas had it all wrong and that he was a monetary crank. This perception remains today because there are still those who for reasons best known to themselves continue to refer to the critics of the thirties—even those very critics who had been demolished and discredited by Douglas and others.

It is well known that in many professions that unless one is a member of that profession any views or comments relating to matters within their province that has not been "discovered" by one of their own is labelled as nonsense. Economics is no exception. In fact, it may be said that economists are stronger in their condemnation of outsiders than any other profession including the medical profession. Economics is claimed to be a science, but in fact it is not, and although referred to by some economists as a dismal science it cannot even claim this distinction because a science either is or it is not. One thing is certain, and that is that Douglas never claimed to be an economist and in fact spurned the very idea.

From the criticisms that have been raised during the last eight decades it is more than obvious that those critics have not understood and do not understand the subject of Social Credit.

If they did, it would have occurred that the monetary aspect is only one part of the whole. It would seem then that such criticisms that have been made were due to some feeling of insecurity in that their professional domain was being undermined.

This certainly had nothing to do with discovering and understanding the truths that related to Man and the society in which he lives. In fact, it demonstrates an inability to distinguish between numbers and things. Man is not a number. Today there are current critics existing who, in attempting to discredit or ridicule Social Credit, are in fact demonstrating that they do not consider it to be irrelevant. Whilst the proponents of Social Credit exist they have made little indent in the affairs of Man and the society that could be benefited by the introduction of their Philosophy and Policy. This being the case, why do the opponents continue to regard them as relevant?

This writing is not concerned with the overall issue of Social Credit but simply that part that deals with what is known as the A + B Theorem. The intention is not to prove its correctness as this has been done already through the passage of time and events as will be seen throughout the following discussion. The main purpose for writing this work at all is to expose the falsehoods past and present, the presentation of untruths, and the manner in which these critics have dealt with the subject matter. Most of us are familiar with the tall poppy syndrome, or the Hollywood Western where there was always some insignificant nobody who wanted to take on and beat the “greatest” gun-slinger to make a name for themselves. Most of it was fiction although in the case of Jesse James he was shot in the back.

Much could be said about those critics of Social Credit who criticise but are not prepared to face the truth and who prefer to refer to the writings of others who, like themselves, have never read Douglas, or understood his work, or simply do not wish to admit they do not understand it. Such is the worth of those who would consider themselves scholars whose main consideration was not to benefit mankind but themselves.

Their efforts are primarily vocational and monetary rewards for themselves along with the ego of being another who has “discredited”, “slain the giant”, “shot him down in flames”, and more particularly of late “shot him in the back”, because he is not around any more to defend himself.

This is not an attempt to defend C. H. Douglas, because he does not need defending. It is rather a case of telling the truth. To put before the public a correct assertion with regard to these matters requires much repetition and quotes and statements not of this writer's imagination but those of the players involved.

Where possible, the order in which the material is presented will be as chronological as feasible to provide some semblance of the development of the argument. In the light of current accepted knowledge some of the arguments may appear to be tautologous but it must be remembered that it is in the arena of Economics and their writers that arguments have changed, not Social Credit. This is not to say that Social Credit itself does not change, it does, being an organic growth, but the principles and acceptance of the Law of Nature do not change. New discoveries may be made in regard to the operation of Natural Law, *e.g.*, those relating to motion, gravity, relativity, that allow for man to fly in an aeroplane or venture into space.

Time and space and energy are still the same today as they were eight decades ago. It is the increase in our knowledge and understanding of them and how they may be utilised to benefit mankind that has changed.

The reader will be aware of comments that on first glance may appear biting. Beware! What is presented here is not an attack on our opponents. There is no resorting to *Argumentum ad Hominem*. Sometimes the truth hurts but only those who cannot or will not accept it.

There are those critics who may genuinely believe that they are providing a service to the community by pointing out what they consider to be errors. To them we can only say that "the road to hell is paved with good intentions," or perhaps, "forgive them for they do not know what they do." To others who deliberately distort the truth, we hope the truth hurts.

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CHAPTER I

To all students of the subject of Social Credit it is self evident that the primary requisite is an understanding of the Philosophy. It is this Philosophy that undergirds and on which the Policy is based. Part of the policy of Social Credit revolves around a claim that there needs to be a fundamental alteration to the accounting system that reflects the reality of the physical world in which we live. The reality that we are dealing with in this discussion relates to the relationship between the productive system and the financial system. It is simply superfluous to say that the financial system should be a reflection of the production system and that the production system should operate in a state that recognises the Law of Nature.

It is the failure of most antagonists to understand the principles involved together with a lack of understanding of the English language and an adherence to the strict truth of statements that are made that leads them into error. Indeed, there have been some who have indicated their support for ideas expressed by C. H. Douglas but who also have not grasped an understanding and as a result have become the basis for criticism of Social Credit. It can only be said that the academic standing of those who resort to analysis on a subject without going to source material cannot be accepted as of any standing value.

As this controversy amongst the critics centres around the A + B Theorem no attempt is made to examine the Philosophy. Obviously, if opponents of Social Credit do not accept the Philosophy it is self-evident that they will not or cannot accept the Policy. The arguments contained herein are purely to expose the fallacies of their arguments, their misguided beliefs, their underhanded attempts to resort to deception by applying fallacious arguments and then "proving" them wrong.

This is commonly called "the straw man argument."

The A + B Theorem

Although the Theorem had its origin in 1919 its inclusion in *The Monopoly of Credit* by C. H. Douglas, first published in 1931, provided evidence by Douglas of its correctness.

The Theorem states:

> In any manufacturing undertaking the payments made may be divided into two groups: Group A – Payments made to individuals as wages, salaries, and dividends, and Group B – Payments made to other organizations for raw materials, bank charges, and other external costs. The rate of distribution of purchasing power to individuals is represented by A, but since all payments go into prices, the rate of generation of prices cannot be less than A plus B. Since A will not purchase A plus B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the description grouped under A.

This Theorem should be referred to at all times when being discussed because it has been stated in different terms by academics and others in their attempts to explain it. It says what it says – no more and no less. It is a Theorem which means that it is a statement of fact which although not self-evident, can be demonstrated to be true as can be a Geometry Theorem. The problem for most challengers is not that as a simple statement it is not true, because it is. A cannot be equal to A + B. The problem lies with the word "rate".

Rate implies time. Writing in *The New Age,* October 9, 1924,[1] Douglas pointed to ". . . the astounding inability on the part of many people who were neither dull nor consciously antagonistic, to grasp its meaning, was a revelation in practical psychology."

Douglas commented on the fact that,

> In the last two or three years (prior to 1924) several books have been written by authors entirely unconnected with the Social Credit Movement, both in this country (England) and in America, proving the same theorem by different methods of attack. . . . But . . . it is still extraordinarily difficult, for many people to grasp the proposition which is involved, by *intellectual* methods, although considerable numbers find it easy enough by intuitional, and to a lesser extent, by mathematical processes.

Physical and Financial Units

To assist further in giving some guidance towards an understanding he offered the following explanation:

> In the production of any articles by modem industry there may be said to be three factors: finance, real capital, and labour. To be clear about this, consider what is actually employed in a modem factory. There is money for wages, salaries and outgoings, that is finance; there are tools, buildings, and materials, the latter being practically always semi-manufactures, and these are collectively real capital; and there is labour both manual, technical and administrative. Before going any further let the reader be quite sure that he is in firm possession of the idea that while labour and real capital are expressible in physical units, physical units are not used in finance, but financial units are used.[2]

There is no doubt that the reader should understand what Douglas means when he refers to "physical units" as compared to financial units that are described in terms of symbols such as $ or £, or ¥ or Mark or Peso. In *Economic Democracy* Douglas poses the question and provides the answer in discussing giving the individual power over the basic necessities food, clothing and shelter:

> . . . the first step is to give the individual control of the necessaries of life on the cheapest terms possible. What are these terms? What is the fundamental *currency* [emphasis added – Author] in which the individual does in the last analysis liquidate his debts? A little consideration must make it clear that there can be only one reply; that the individual only possesses inalienable property of the one description; potential effort over a definite period of time.
>
> If this be admitted, and it is inconceivable that anyone would seriously deny it, it follows that *the real unit of the world's currency is effort into time – what we may call the time-energy unit.* [emphasis added – Author]

Having grasped this difference between the two units of measurement we can revert to Douglas's explanation above:

> Now imagine the factory under consideration to be fully organised and in possession of all the necessary tools, material and labour requisite for physical production, and to have a department which corresponds in the method of its workings with the technique of a modem bank. That is to say, imagine it to be able to create a financial credit. The factory now starts working, and its cost accountants allocate wages and salaries to the cost of the product, sums to depreciation, etc., and so on. Indisputably the cost of the product, and therefore the minimum price, will be represented by the total of the credit created *plus all the sums charged against the product for the use of tools, etc.,* and production will go on until this credit is exhausted. Therefore, the minimum price, without profit, of the production would be equal to the amount of credit created, plus overhead charges. Note particularly that these 'overhead charges' are simply *figures* representing money to be recovered in prices in the future.
>
> Suppose this transaction to take place on the desert island, which is so convenient for experiments of this kind; clearly by orthodox financial methods, the whole of this credit has to be repaid, so we will imagine that when the credit is exhausted production stops and consumption begins. The stream of credit begins to flow back from the public to the banking department of the factory through the agency of prices. At once one of two things happens; either the departments connected with overhead charges intercept a portion of the stream of returning 'money' and immobilise it in either a financial or physical form (new machines, *etc*.) in their respective departments to represent the sums they included in cost, in which case the loan could not possibly be repaid in full; or else the loan being a first charge, it *is* repaid in full, in which case the whole of the product cannot possibly be sold, since when prices equal to the

> original credit have been paid, the extant credit would be nil, and the public would have no money.[3]

Douglas wrote in a manner that presupposed that people either knew what he was talking about in a specific area, or at least if they did not understand, they could do some research and find out. In the passage just quoted he mentions the technique of a modern bank and its ability to create financial credit. Unfortunately, at that time in 1924 there were many academics who were denying the ability of the banking system to create credit (money), even in the face of statements from recognised authorities in the banking system and others. This view still prevails today, even though it is now officially admitted and is included in the teaching of economic textbooks. There are also those critics who whilst not denying outright that banks create credit (money), say that it is not important, or use some excuse to say that there are controls that limit the banks in this process. At the same time they make absurd claims that Social Crediters want to be able to create credit (money) *ad infinitum* and this would be inflationary, and then use as an example the results of massive credit creation and the disastrous consequences that occurred in Germany after the 1914-18 War.

A little thought to what Douglas said in the above extract reveals the truth. If there is no bus to travel on, one cannot spend money on a fare. If there is no plane to fly on, one cannot spend money on a plane fare. If there is no taxi to hire, one cannot spend money on a taxi fare. If there are no workers to hire, one cannot pay wages. If there are no tools and equipment to purchase, one cannot spend money on tools and equipment. If there is no steel available to make motorcars, one cannot make motor cars. In fact, no production of any kind can take place in a factory where it has no real capital or labour. Why would anyone in their right mind wish to create further credit (money—finance) under the above conditions if there was no use for it? It would be as useful as a man dying of thirst in the desert with no water but a pocket full of credit cards and $500 in his wallet.

Douglas made the point that, "production would go on until this credit is exhausted". It has escaped the notice of the critics that he has not deviated from his acceptance of the definition of money in *Economic Democracy* of 1920:

Definition of Money

> Any medium which has reached such a degree of acceptability that no matter what it is made of, and no matter why people want it, no one will refuse it in exchange for his product if he is a willing seller.
>
> (Professor Walker – *Money, Trade and Industry)*.

Douglas expressed a valid observation when he said that if money can be "any medium" it then attains a psychological aspect. *In this context* therefore, there is no limit to the amount of credit or money that may be made available. There is however a limit on the requirement of money, and that is a natural limit that is entrenched in the availability of resources, *i.e.,* real capital and labour. This could also be translated into the availability of energy in all its forms and the knowledge *that* is available to utilise energy to transform existing matter from one form to another. The other factor that could be introduced would be time. From this observation came the slogan popularly used by many who did not even understand Social Credit. "What is physically possible can and should be made financially possible."

What should be a simple self-evident and perfectly understandable situation has been completely lost on those who would criticise. Under natural conditions production ceases when real credit is exhausted or does not exist. Under the current financial system, whether in 1924 or today, production is limited by financial credit restraints. In his simple explanation Douglas continues:

It should be particularly noted that it is a matter of no importance to this argument that the overhead charges do actually represent machinery which has been worn out, *etc., etc*. The difficulty is an arithmetical difficulty, not an ethical difficulty. This situation is clearly not affected by separating the finance of the process into a separate business, nor is it affected, in principle by assuming that the factory in question has a stock of savings, which it disburses and recovers in the manner outlined for the loan provided by the bank.

There *is,* however, a very marked difference introduced into the situation by the separation of the banking process from the business which it finances, which difference is quite additional and separate to the process we have just been considering; and this difference, no doubt, has a great deal to do with the progress towards the breakdown of the financial system as a whole, which is now obvious.

When the old-fashioned business financed itself, the period during which its credits were outstanding was co-terminus with the time that it took to make and sell its goods. With the increasing sub-division and complexity of industrial processes the average period necessary to convert raw material into a finished product, and to dispose of it, has very considerably increased. Iron ore mined this year will probably appear as sewing machines three or four years hence, and the sewing machines will be paid for by the public three or four months after that. But probably half a dozen stages at least of this conversion process have been financed by selling trade bills, maturing in ninety days, and the maturity of every one of these bills destroys the amount of purchasing power which is the equivalent of the costs and profits incurred during the period. To put the matter another way, there is no relation at all between the extant amount of purchasing power and the extant price of goods. A moment's consideration of the effect which would be produced by the whole population of this country trying to sell its possessions at once, or even a consideration of the enormous disparity between the second-hand price of a

> perfectly good article and its trade price ought to be sufficient to convince anyone that the financial credit which attaches, even to visible goods, is not, to a considerable extent, in the hands of individuals.[4]

The above argument is not affected in any way by the change in the means of financing, as trade bills may not be used to the same extent that they were in the twenties, or as were 90-day letters of credit in later years. The use of loan financing and the use of overdrafts today do not affect the above argument. What is important is the *rate* at which financial credit is created and destroyed.

Douglas continues his argument and explains the credit situation by saying:

> The key to this, lies without a shadow of a doubt, in the fact that a workable money or credit system must be a double entry system, in which every entry on the production side has an equivalent credit on the consumer's side, which credit remains available and equivalent up to the actual moment of its cancellation by the actual transfer of goods. Since it is of the very essence of the credit system ("Faith—credit—is the substance of things hoped for; the evidence of things not seen") that production will not take place except in the reasonably sure anticipation of a ready market, it seems perfectly clear that the trouble arises from the fact that *the consumer gets his credit from the producer instead of the producer getting his credit from the consumer*. In other words, if the producer knew that the power of rendering credit visible, which is now a monopoly of the banks, were resident in the consumer, he would take orders for his product up to the limit of his capacity from the consumer with the same readiness that he would take them from, let us say the Midland Bank. I have never heard of any manufacturer refusing an order, payment for which was guaranteed by one of the large banks.[5]

It may be obvious to the reader that there would need to be a method by which a change in the finance system would occur. There is, but it is the subject of a different controversy between Social Crediters and orthodox economists. To include this in this discussion would confuse the issue at hand and this is precisely what has occurred with the inability of some people to handle one thing at a time.

Before venturing into the complexities of the financial system the reader should acquire a complete understanding of the physical facts relating to production, *i.e.*, the use of time-energy units.

CHAPTER II

Consistency in thought and action relating to finance and banking, is not a strong point in the arsenal of economists, politicians, bankers and other academics who have been consistent in their attacks on and denigration of Social Credit. By contrast the thoughts and ideas expressed by C. H. Douglas are consistent in their approach to the real world in which we live.

In 1923 Douglas appeared before the Select Standing Committee on Banking and Commerce on *Bill No.* 83, *An Act Respecting Banks and Banking and on the Resolution of Mr. Irvine, M.P., re The Business, Function and Control of Financial Credit, &c. House of Commons, Canada, Ottawa, Thursday, 8th March, 1923*.[6]

The above Enquiry at which Douglas gave evidence eventuated as a result of the fact that the Canadian Bank Charter Act had come up for renewal and several members of the then Progressive Party attempted to delay the renewal by pressing for the Enquiry. Their aim was to utilise evidence from the Enquiry to have the Standing Committee take note of the evidence in conjunction with their review of the Bank Charter Act.

Although they succeeded in this the final outcome was to allow the Committee to treat the evidence as incidental to their examination of the Bank Charter Act. In doing so it allowed the Committee to avoid publishing any conclusions on the subject of business, function and control of financial credit in their Report. This was simply achieved by merely recommending the renewal of the Charter.

A reading of the transcript of the Enquiry indicates that the Committee attached to itself a position of authority even though asking questions. At times it is evident that Douglas might be considered as somewhat of a hostile witness in that some members of the Committee had pre-supposed Douglas's answers. In fact the style of questioning could be regarded as insulting.

The foreword in the above publication included the comment that despite the Committee disregarding the evidence submitted there was some positive result.

> Nevertheless, the intentions of the progressive members were fully realised. One was to enable Major Douglas to be brought face to face with the most experienced administrators and upholders of the present banking system – a privilege (or an ideal, according to how one regards it) which had been rigorously denied him in the financial centre of the world – the City of London. The other was to secure advantage of getting his evidence and examination permanently recorded in a Governmental publication, which, as such, would be certain to attract the attention of the financial advisers of all other Governments.

This was certainly achieved and it highlights the attitudes and changes of "experienced administrators and upholders of the present banking system". Whilst the Enquiry in total is not relevant to this discussion, some of the questions and answers provide some interesting content:

> *By Mr. Irvine:*
>
> Q. Major Douglas, I have here a little booklet entitled 'Banks and Banking', which was sent to the Members of Parliament with the compliments of the Bankers' Association.
>
> Mr. W.F. Maclean: Who wrote that?
>
> *By Mr. Irvine:*
>
> Q. You will have to ask the Bankers' Association, it is O.K'd. by them. This purports to set forth the function of credit and currency as it is at the present time. May I ask if you have read that pamphlet issued by the Bankers' Association? A. I have, sir.

Q. What is your opinion of it? A. I think, sir it is a very able, very carefully written presentation of the orthodox views on banking and finance, and I would say that the whole of the case of banking and finance as it stands at the present time might be said to stand or fall by the correctness of the statements which are made in that small book.

Q. Being of such importance, then, in your opinion, would you be prepared to answer questions on its subject matter? A. Yes, sir.

Q. On page 3 it is stated, for instance, that the intention is to deal broadly with the basis of credit. From your perusal of the pamphlet, what would you say is the idea of the Canadian Bankers' Association of the ultimate basis of credit? A. I read the book to which you refer, sir, very carefully, and I think it is not anywhere stated what is the ultimate basis of credit, but I think it is quite fair to say that the whole implication of the book is to show that gold is the ultimate basis of credit.

Q. Would you agree with that? A. I should disagree with it, wholly.

Q. Why? A. I think it is erroneous in fact, in actual fact, and also erroneous and mischievous, to some extent, in intention.

Q. On what grounds do you say it is erroneous in fact, or why is it erroneous in fact? A. I should say it is erroneous in fact because no one would expect gold in return for goods and services unless they were thoroughly well assured that they would be able to obtain goods and services in return for gold. Therefore, it may be said that it is the belief which attaches to gold and not the gold itself which is the basis of credit.

Q. You said something about the intention. Why would you say it is unsatisfactory in intention?

The Chairman: Speak a little louder, Mr. Irvine, please.

By Mr. Irvine:

Q. I was asking Major Douglas why he said that the presentation of the case by the Bankers' Association was unsatisfactory in intention.

Mr. McMaster: In intention?

By Mr. Irvine:

Q. In intention? A. As I understand it, it was why gold was the basis of credit.

Q. Yes, that is referring to the basis of credit as laid down by the Bankers' Association. A. I think that the contention that gold is the basis of credit is unsatisfactory in intention, because the quantity of gold in the world bears no relation, and can bear no relation to the possible production and demand and circulation of goods and services, and further, that when any real demand is made on gold, to anything like the extent that the claims on gold exist, the amount of gold in the world has always proved itself to be wholly insufficient to meet these demands.

Q. You would have noticed, I presume, that the words 'currency' and 'credit' seem to occur interchangeably in this presentation. Would you agree with that? A. I should say that all currency is credit, but all credit is not currency.

Q. On pages 14 and 15 of this little book, under the heading, 'Canadian Currency', occur the phrases; 'The primary essential of a currency is stability'. 'No currency has been kept stable that did not rest on a gold basis'. What have you to say in that connection? A. I do not agree with either statement. The primary essential of a currency is not stability, it is that whether stable or variable it shall provide for the maximum production and distribution of goods and services desired by the community.

> That refers to the first phrase. In regard to the second phrase, I should like to point out that this booklet, either specifically – I think both specifically and generally – suggests that the United States has continuously been on what is called a gold basis, and therefore might be expected to confirm these statements which were made. . . .

Douglas proceeds to put into evidence before the Committee a table of index figures revealing the great variations during the period 1921-23. The table was prepared by the Federal Reserve Board on Wholesale Prices in the United States for the purpose of International comparisons. His comment on the index figures was:

> If that is what is meant by stability of a currency, then I do not understand what the meaning of stability is.

Gold Standard

The reader should be in no doubt as to the meaning of the Gold Standard that was accepted by Bankers, Politicians and Economists of the day in contrast to what Douglas was saying. The Gold Standard was a system whereby bank notes are changeable into gold at a fixed rate at any time. Until the 1914-18 war North America and most of the countries of Europe operated on this system. It was generally “suspended” during that war but not by the United States. Britain returned to the Gold Standard in 1925, but like some other countries found it impossible to remain and came off the Gold Standard in 1931. The Gold Standard system was part of accepted economic teaching in 1924 but it is not today. Douglas stated the fallacy in 1924 and it is a fallacy today to believe that the quantity of gold has any relation to the demand and circulation of goods.

Further into the Enquiry after questions, which are irrelevant to the matter under contention, there were other questions put to Douglas that indicate the level of knowledge and understanding and sometimes arrogance of members of the committee. It is interesting to note the sequence of questions alternating between questioners who it would appear were attempting to throw Douglas off balance by their tactics. Some questions and answers have been omitted as they bear no relevance to this discussion.

After some deliberations on differences between British and German currency the following exchange ensued:

By Mr. Woodsworth:

Q. The value of gold is dependent more or less on the law of supply and demand. Is fiat money subject to the same law? A. No.

Q. What is the law that regulates the value of fiat money? A. The relation between prices and fiat money.

Questions followed by the Chairman and then:

By Mr. Good:

Q. Just one question in connection with the stability of currency. I was rather surprised to hear the witness say, if I understood him right, that it was a comparatively immaterial matter whether or not a currency was stable. [Douglas did not say this at all and it is a complete misinterpretation of what he said. Note the end of Douglas's comment in his answer to this –Author.] My idea of a stable currency is that it should be worth in commodity and services approximately the same or as nearly as possible, the same now as last year, and next year, so that any obligations entered into between two parties may not change in the interval between the time they are entered into, and time of settlement. I think perhaps the Committee would like some further elaboration on that point. I was not quite satisfied with the explanation. Possibly I misunderstood it.

A. That is a very important point, and I understand the confusion possibly which that statement might lead to at first. The point I wanted to bring out in making that statement was that whatever the maximum of production and distribution of goods and service, either to the limit of capacity or the limit of real demand – whatever are the conditions of the currency to produce that condition – then that is the determining thing, not either the stability or the variability or anything else of the currency.

The currency should be entirely subsidiary, whatever its movement one way or another may be, to whatever is necessary to meet the primary contention; that you would be able to produce and distribute either up to the limit of capacity or the limit of real demand. And currency should conform to that need irrespective of whether it is stable or whether it is not. *I am not saying it should be stable or that it should not be stable. I am merely saying that that is not a primary necessity*. [emphasis added –Author]

By Mr. Woodsworth:

Q. I am afraid I did not understand what determines the value of fiat money, if not its quantity or its volume what does determine its value?   A. What it will buy.

Q. But that is what we mean by the value, what it will buy; is it not the quantity that determines how much it will buy? A. Not necessarily.

Q. Would you explain again what it is? We were speaking a few minutes ago about gold, originally gold was the standard, the volume of gold or quantity in circulation determined the value; gold was the measure of all things, that is, that the other things rose or fell in accordance with the amount of gold; now we have substituted for gold what you term fiat money?   A. That is not my term.

Q. It was used by you a moment ago in answering that all money was more or less of the same character if it functioned in the same way? [These are not Douglas's words. What he did say in relation to a question relating to the comparison between wheat and money being commodities and a request for his comment on a statement in the pamphlet being used which stated 'a national bank implies fiat money' was; 'Now, *I cannot myself see any distinction between any sort of money which performs the function of money*'. [emphasis added – Author]

A. Yes, including gold.

> Q. My question was as to whether all money was not subject to the same laws that gold would be? A. Only under the present financial system.
>
> Q. If there were no fixing of prices as long as our present system continues then all money is subject to the same laws of value that gold is? A. Including gold.
>
> Q. And then, under those circumstances, the amount of money in circulation has a direct relationship to prices? A. Under the present financial system, yes.

Every now and then when the topic of Social Credit is mentioned there is always some "informed" person who claims knowledge of the subject and its background and makes an "expert" comment that it has been discredited by such and such a writer or by some Royal Commission or Enquiry. Of course this is not true and it can be reasonably expected that readers will not endeavour to search out to discover the truth. It is for this reason that there is included in this writing sufficient evidence to counter-balance the preposterous, incorrect statements, and deliberate untruths that are made.

The A + B Theorem is still ridiculed by some opponents of Social Credit without wishing to enter into any sort of meaningful dialogue with official Social Credit people, preferring to either avoid this or quote from some unofficial source of people who make claim to be "Social Crediters". As previously mentioned it is not necessary to prove whether or not the Theorem is correct because this has been done by events. For the benefit of the reader, there follow excerpts from this Enquiry without comment and it is left to the reader to draw any conclusions. They are, however, pertinent to the Theorem.

> *"By Mr. Irvine:*
>
> Q. On page 46, under the caption, 'Cheap Money and Plenty of It', this statement is made: 'The dearness or cheapness of money must depend primarily upon the relation between the supply of loanable funds and demand for the use of such funds'. Do you agree with that statement?

A. I disagree with it, absolutely. I think that that statement is the central contention of the existing banking system, and when I say that I do hope that I am making it clear that I am criticising a system and not those who deal with that system. From our point of view, we say in regard to the views that I am putting forward now, we say that money is not a commodity – it is a ticket system. The supply of tickets, that is to say money, must depend on the seating accommodation. That is to say it must depend on the capacity of the production system to meet the claims made on it by the tickets, not on the ability of the ticket vendor to hold up supply.

Q. On the next page, namely page 47, this statement is made: ‘Nearly all loans are made by credits entered on the books of a bank, or by cheques, or drafts, or acceptances, and these pass into the general clearing of the community, of which only the resulting balances are settled in money; hence the mere plentifulness of money is only remotely connected with the supply of loanable funds’. What do you think of that statement? A. I think that statement is not only correct, it is a full admission: (a) That banks and credit institutions control industry, and (b) by controlling industry and purchasing power they control distribution.

Hon. Mr. Stevens: Just a minute, just to show, Mr. Chairman, the utter folly of this proceeding. The first of these two questions is simply the first part of the same proposition in this pamphlet, to which the witness answers in an absolute negative; the second question is the second part of the same proposition in this pamphlet, to which he answers in the affirmative, or agrees with.

Mr. Irvine: What is your question, or your inference?

Hon. Mr. Stevens: My point is this; without taking responsibility for this pamphlet, it is positively absurd, and I think, unreasonable, to pick out a sentence or a part of a sentence and ask the witness’s opinion on that, when immediately following is the explanation of that same sentence, in a little different form.

If you segregate the two they seem to have two different meanings; if you read them together, one is explanatory of the other.

Mr. Irvine: Will you read the ones that contradict each other?

Hon. Mr. Stevens: "The dearness or cheapness of money must depend primarily upon the relation between the supply of loanable funds and the demand for the use of such funds. The term 'loanable funds' is by no means restricted to actual money. Nearly all loans are made by credits entered on the books of a bank, or by cheques or drafts or acceptances, and these pass into the general clearing of the community, of which only the resulting balances are settled in money; hence, the mere plentifulness of money is only remotely connected with the supply of loanable funds". That is one proposition presented in this pamphlet. My friend segregates this in two, to which the witness gives a categorical denial to one, "absolutely no", he says. To the other one, he says, "I agree". Now, I want to submit that it is not fair to Major Douglas to ask him questions separately; my honourable friend a moment ago said, or suggested to the Committee that these questions and answers are going to affect the whole question of the financial system of this country. Why proceed that way? It is a perfectly ludicrous proposition, in my estimation, to proceed that way.

Mr. McMaster: Mr. Irvine has only one further question, I understand.

Mr. Irvine: Mr. Chairman, I have no more questions with regard to this, but I think the objection of Mr. Stevens illustrates the point at issue very excellently. Here is a statement, which ought to be taken together, and not separately, and yet one half of it condemns the other half of it.

Mr. McMaster: In the opinion of the witness it does, but we have not finished yet, have we?

The Chairman: Go ahead, Mr. Irvine, if you are not through.

Mr. Irvine: I believe that there are two more questions, but I would like to ask the witness now to explain to us what the financial system which we have been dealing with has brought about in the industrial world; what is the situation to-day, as a step leading towards a new proposal?

Mr. Marler: That is a very general question to ask that will take a year to answer. Has this gentleman not some system that he is going to explain? Let us hear it, if he has.

The Chairman: I think Mr. Irvine's request is fair. He asks a general question of the witness, as to the effect of the present system, as to how the present financial system affects industry generally, and then, I assume, he will follow that up by some suggestion of another scheme.

Mr. Cahill: I understood he would follow that up, Mr. Chairman, but I would like to know for sure; I do not want to waste my time here.

The Chairman: I think we can fairly assume that.

The Witness: I have no intention whatever of placing a scheme before the Committee which has not been put forward as a scheme, subjected to criticism of the people who understand the local conditions and the subject at issue. I have very strong views on the divergence of the general principles, which are embodied, let us say, in the financial system, not only of this country, but of every country and the principles which would deal with the troubles which are growing more serious in every country of the world at the present time.

These general principles, if you are interested, I shall be happy to place before you afterwards, and those would really put before you usefully. I shall, if I am allowed, and if you wish me to, emphasize where the present arrangements are leading you and what they have produced. If you are satisfied. . . .

The Chairman: Yes, I think that is fair. You may proceed. That is in answer to Mr. Irvine's question. I think that question is perfectly proper. We cannot consider the resolution unless he can give an answer to it.

Mr. McMaster: He has a remedy, and he wants to discuss the disease before he prescribes a remedy.

The Witness: Well, gentlemen, first of all, I would like to say that I am a little sorry, and that I am very unwilling, from my point of view, to sense the introduction, if you will allow me to say so, without the slightest intention of offence, of a certain amount of acrimony into this discussion. My own object in coming here is to make clear that I, personally, am convinced that if you go along the lines that you are following at present, and if you continue along those lines for any considerable period of time (I am not going to tie myself down to a date – but for my own part, and I think my opinion is being shared by an increasing number of people) I am perfectly certain you are heading for the most terrific disaster that the mind of man can conceive.

Douglas had foreseen the events of 1929, The Great Crash and the aftermath but this was lost on this Committee. He continued his discussion and concluded for the day. Just as today, when there are those who refer to Social Credit as a scheme, the same belief was held in 1924. It seems impossible to obtain some semblance of understanding of the difference between a scheme or plan of Social Credit as distinct from a plan or scheme for the operation of some method or means whereby the Social Credit policies may be effected. After a few questions and his further statement the following afternoon, Douglas concluded by saying. "I am now open for any further questions."

Mr. W. F. Maclean: Has the witness a concrete proposition?

Mr. Ryckman: When is the witness going to give us this substitute plan?

> *The Chairman:* I was going to suggest that Major Douglas should proceed to elaborate an alternative scheme to put in place of that which now prevails; I think that would be more satisfactory to the Committee and, in the end, to himself.
>
> *The Witness:* Mr. Chairman and Gentlemen: The point that I think wants to be made clear before I proceed is, that if you are all satisfied with the statement that the present financial system is, broadly speaking, perfect, there is, of course, no ground for putting an alternative. If a man is going to assert that he is not sick, it is obviously foolish to offer him a remedy. Therefore, as you are good enough to ask me to put forward an alternative I must assume that you agree that perhaps we are, in the body politic, a little sick, and on that assumption I will proceed to put before you, not a concrete scheme, because I do not believe that anything could be more useless at this stage of the proceedings than to put before you a concrete scheme.

At this point it may be stated that some five years had elapsed since Douglas propounded his ideas relating to the discrepancy between prices and purchasing power and many people, wishing to know more and trying to grasp what he was saying had mounted much discussion, questions and arguments. As well there were those who flatly refused or were incapable of understanding the situation.

Some, who questioned and stated their reasoning invariably, could not accept that overhead charges such as depreciation, or profits, or that even the allocation of interest charges could not be distributed until received. Unless, and until they were received in full or at a minimum without profit there would still be a gap. This of course is aside from the payments over a time period and the rate of flow of money.

Douglas answered many of those who could not understand the flow of money in and out of the banking system.

The basic assumption always appeared to be that the amount of money in existence was always the same and in addition that the purchasing power of that money remained the same. In other words, the banking system, the government, and inflation never entered into their calculations.

One of Douglas's articles that appeared in *The Clarion,* September, 1925 was reproduced in *The New Age,* September 24, 1925 and is reproduced again here. The purpose is to provide more enlightenment for those who find the matter difficult but also to reveal the consistency of Douglas in attempting to have it understood.

> One of the difficulties which confronts a student of the New Economics is that concerning what has become known as the 'A + B' or 'Flow' Theorem, which is concerned with proving that the purchasing power distributed to the public over a given period of time is insufficient to purchase the goods which become available during the same period of time.
>
> There are a number of ways of proving this proposition, but many of them have the obvious disadvantage of being inconclusive except to those who are completely familiar with a number of widely separated ideas. Before putting forward what is, so far as I know, the simplest method of considering the question, it is desirable to emphasise its importance. Lack of purchasing power (not, be it noted, merely lack of currency) is an adequate explanation of all observed economic troubles. It is a complete explanation of unemployment; it is an explanation far more convincing than any 'moral' explanation, of the persistence and multiplication of crime; it is an explanation of the inadequacy of Parliamentary methods in dealing with industrial questions. It does not require any debatable and unproved theories of administration and industrial psychology, such as are involved in discussions of private versus nationalised administration, to explain its effects. In the modem world if a man has not money he is poor, if he has enough money he is rich, of course, in the economic sense.

There is no room for discussion about the fact, although there is good deal of discussion about what would happen if everyone was rich. In addition, however, if we can prove (as we can) that it is not because the rich are rich that the poor are poor, we have an invaluable weapon against the doctrine of class hatred.

We started, therefore, with the strongest possible incentive to discover an explanation, not so much *if* there is a shortage, but *why* there is a shortage of purchasing power, because the most elementary observation is sufficient to convince the average man that there is not a shortage of goods; and, still more important, that the whole industrial system is clamouring to be allowed to produce *more* goods. The shops are full, but the workshops and factories are half empty. Farms are half cultivated, and land is reverting to pasture, not because such factories and farms are incapable of producing, but because the population is incapable of buying.

While absence of money makes the individual poor, and a sufficiency of it makes him rich, it is of the first importance to realise that money and goods have no more relation than figures and facts. Money is an accounting system, of which the creditor side may be considered to be purchasing power, and the debtor side may be considered to be prices, and in common with other accounting systems, the two sides of the account should balance, which is another way of saying that any item which appears on one side of the account must be traceable by a qualified accountant, on the other side of the account. That the two sides do not balance, and that items appear on one side of the account, which do not appear on the other, can be proved.

Suppose that I have a thousand pounds, and I pay that thousand pounds away for the purpose of having a house built. We will imagine that the whole thousand pounds goes in nothing but wages, which does not in any way affect the argument, and we will suppose that, by doing work on something else, the workmen could live and save all that they earned by house building.

Suppose, now that the workmen who built the house, who collectively have my thousand pounds, decided to buy the house, and I agreed to sell to them for a thousand pounds. Notice that no question of profit arises. The workmen now have the house, and I have my thousand pounds back again. In other words, the workmen have got the house merely by working for it. But these workmen would express it by saying that they had paid a thousand pounds for the house.[7]

I am now out of the transaction altogether, and we will suppose myself and my money were removed to another planet, or we can suppose that I tore up the money when it was returned to me (which is the equivalent of the repayment of a bank loan). Suppose now that the workmen decide to use the house to make and sell shoes. If they carry on the business of orthodox business lines the cost of the shoes will consist of three items: (1) Wages, (2) Raw materials, (3) Rent of factory, *i.e.* the house. We will suppose for the moment that they get their raw materials for nothing, and that the 'rent' of the house is nothing but an appropriation of money of such amount that when the house falls down they will have got back their thousand pounds. It is technically called 'depreciation'. Since the public gets the shoes, clearly they ought to pay 'depreciation'. Notice, therefore, that neither interest, *i.e.* 'usury', nor dividends, nor land monopoly, are imported into the question.

But the simple and vital fact remains that the wages paid during the production of the shoes are less than the price of the shoes by an amount large or small, which is added to the *cost* of the shoes before the shoes are sold, representing at least 'depreciation'. This amount, which is added to the *cost* of the shoes, represents overhead charges in their simplest form, and in many modern productions, overhead charges are between 200 and 300 percent of the *direct* cost of the product. It is not *profit*.

Now I feel certain that someone will want to object that the *money* equivalent to overhead charges must exist somewhere, and I wish to assure such an objector most categorically that it does not.

By far the most important method by which it has disappeared is by repayment of bank loans. The mechanism by which banks actually create money, and the reverse process, by which it is made to disappear, is a very important part of this subject, but it is not absolutely vital. This can be proved as follows:

Suppose in the instance given above that having sold my house to the workmen I had used the thousand pounds to build another house with which I had repeated the identical process. Once again, I should have got *the same* thousand pounds back again, once the workmen would have got into possession of the house, merely by working for it, once again they would have created an overhead charge on anything they manufactured in the house, of one thousand pounds, and although there would be only one thousand pounds of *money* in existence in respect of the production of the houses, there would be two thousand pounds of *prices* created in respect of the two houses, which would have to be recovered in the price of something sold to the public, and the amount of money and purchasing power would be exactly what it was before the houses were built. In other words, you do not make money by making goods, *but you do make prices*.

If this idea is once thoroughly grasped, it will be seen to dispose, I think quite finally, of most of the proposals for social reform, which do not deal with the financial system, and a good many that do. I do not say that it is the only thing in the world that requires attention. That would be absurd. But for myself, I have no doubt that it is the first thing that requires attention".[8]

CHAPTER III

Douglas continued to speak and write on the subject and an article in The New Age, May 22, 1930 on the A + B Theorem outlined the Theorem with an illustration and further explanation that was later to be the basis for inclusion in his book *The Monopoly of Credit*. Here, the wording of the Theorem, no doubt to be more explicit, but without changing the meaning read:

> In any commercial undertaking payments may be divided into two groups. G*roup A*. All payments made to individuals (wages, salaries and dividends). G*roup 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. 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 which is not comprised in the description grouped under A.

Douglas continues with his postulate and elucidates the statement provided above by the example of building a house. He offers a deduction and a mathematical formula, which is not necessary to repeat here. He does, however, offer a further contribution to his thinking in writing a letter to a correspondent in *The New Age*, September 4, 1930.

> The Fundamental defect in the existing financial system is due to the fact that effective demand, *i.e.* money, can only reach the consumer as a loan. If you will realise that money and goods are bound to be on opposite sides of a double-entry bookkeeping system it is quite obvious that the correct ownership of credit must originate with the consumer and pass over to the producer in exchange for his goods.

> It cannot possibly originate from and return to a third party any more than it can originate with the producer, who would then have both the money and the goods.[9]

This is the problem that critics have found impossible to understand, because it is precisely the manner in which the system does operate. The majority of money does originate from a third party, the banking system, and is returned to that "third party".

A. W. Coleman writing in *The New Age*, January 29, 1931 offered an insight to one of the principles required for an understanding of the Social Credit approach to the physical realities as against the financial misconceptions in approaching the subject of cost-accounting:

> **Relativity in Costing**
>
> It has fallen to the lot of most people interested in Social Credit to encounter the man who wants to have the 'Douglas Scheme' explained to him, "briefly old chap – the gist of the thing – in a nutshell".
>
> The Subject, of course, does not admit of compression into anything remotely resembling a nutshell, but any attempt to arrest the attention of a generation bred to captions and snappy headlines is worth the making.
>
> Briefly, then, it may be said that the 'Douglas Scheme' embodies a new method of cost-accounting and pricing of ultimate goods and services, based upon two rational principles:
>
> (a) That the *issue* of financial credit should be based upon ability to produce goods and services required by the community, and

(b) That the *cancellation* of financial credit should take place at the same rate that the real, physical credit – called into being by the financial credit in question – is consumed, worn out, or otherwise depreciated or destroyed.

Not much time need be spent over (a). The proposal has much in common with certain other credit reform schemes, and obviously entails the abolition of the Gold Standard. (Britain did come off the Gold Standard later in this year – 1931).

As regards (b) everything turns upon the Social Credit contention that the actual, physical cost to a community of its total production over any considerable period is simply the total consumption over that period. This is the essence of the matter – the vital point. There are some who hold that the A + B Theorem is the vital part of the business. It is not. A + B is necessary for a thorough grasp of the Douglas *analysis,* but is not vital to the understanding of Social Credit.

What is vital is the question: Do you, or do you not, agree that total consumption over any considerable period is the physical cost of the total production of that period? If you agree, then the Douglas price-factor and the other arrangements for implementing principle (b) follow logically from it. If you do not agree, there is no more to be said.

Possibly our enquirer's first difficulty will be to conceive that there can be any system of accountancy other than the orthodox one in general use throughout industry. He is in much the same position as the old Euclidian geometers when Riemann and Weyl showed that Euclidian geometry was only a particular case of wider and more generalised systems of geometry. And we must be prepared to show him that the system of adding together all financial costs (including profits at each stage) of ultimate goods and services, and calling that the price, is just a particular case of a more

> generalised system of costing and pricing. It is correct for a particular set of economic conditions only, namely, the conditions under which total consumption equals total production; *i.e.* when the price-factor is unity.

Douglas elaborates on this when writing on Price Stabilisation in *The New Age*, April 16, 1931:

> . . . there is probably no shorter way of demonstrating complete ignorance of the true nature of the monetary problem which confronts the world to-day than to suggest that it arises from a lack of stability in price levels, [This same problem existed in the minds of the Committee at the Enquiry in 1923 at Ottawa. – Author] which is the only meaning which can be given to the demand for a stable monetary unit. Both purchasing power, which we may regard, as the numerator of the credit system, and prices, which we may regard as the denominator, are simply the numerator and denominator of a ratio, and it is just as silly to say that one sheep/two sheep is a more satisfactory expression than 1/2 than as it is to say that we must stabilise the value of the monetary unit. [It might be noted that the fraction Consumption/Production used by Douglas in his formula to apply to the Compensated Price[10] mechanism was a means to explain that consumption is less than production. Ed.] The real problem of the modem economic world, which carries in its train untold economic, political, and philosophical implications, is the establishment of this ratio so that it corresponds to the actual facts of production and consumption, which are themselves unstable and do not necessarily vary together.
>
> The assumption of the orthodox economist and banker, although it will be noticed that it is not usually stated in words, is that sufficient purchasing power is distributed in wages, salaries, and dividends to buy the production available, presumably at any price level, *i.e.*, that this ratio is always unity. [The evidence of this can be seen for those who may be interested in the orthodox economic Keynesian models attempting to prove that Consumption = Production. – Author]

> Now in the first place we know that even wages and salaries distributed in the course of production will not buy the product, at a stabilised price level, that is to say, the sum of the wages and salaries in the pockets of those people whose wages and salaries are counted into the cost of goods is never equal at any moment to the collective *cost* prices of goods for sale, because the wages and salaries have appeared two, or three or more times in the cost of production. But in addition to this, goods are not sold at cost prices. It is quite evident that profits, which form the reward of the investor and the entrepreneur in the form of dividends, while they must be paid out of costs recovered *from* the public, were never distributed *at any time* to the public. To put the matter another way, it is impossible outside a closed area containing a fixed amount of money, for any *money*-profits to be made by industrial concerns, which are not exactly balanced by losses on the part of other industrial concerns, although the *true* profits in goods may be considerable.[11]

Following publication of his first book *Economic Democracy* in 1920, Douglas produced *Credit-Power and Democracy* (1920), *The Control and Distribution of Production* (1922), *Social Credit* (1924) and *Warning Democracy* (1931). During the period from 1919 to 1930 there were a number of people who wrote letters to *The New Age* expressing their doubts concerning Douglas's proposals and in particular their inability to understand the A + B Theorem. One of those of note at the time was an economist, Mr. R. G. Hawtrey, to whom we shall return. On August 1, 1923 Douglas wrote to The Lord Bishop of Manchester concerning an article that had appeared in a July number of their quarterly review, which Douglas said, "can only be described as an attack on my views." On a refusal to allow Douglas to reply until after "a few numbers have been issued", which meant about a year, Douglas advised The Lord Bishop of Manchester that he was publishing the correspondence with him together with a reply to Mr. Hawtrey.

The reply contains much that is not germane to this discussion, but a few extracts will counter some of the claims that Douglas was discredited or by inference from others who had referred to these critics, somehow Douglas had been answered. It has been a practice of "latter day saints" holding up the torch of orthodoxy to make reference to their chosen critics, while neglecting to note that those critics were answered in full. In boxing terms one might say by a knockout. (After commenting on Mr. Hawtrey's attack on his literary style and his political leanings Douglas quotes an extract from a book by Colonel Repington, *After the War,* dated April 11, 1921.)

> Mr. Hawtrey may be said to belong to a school of thought which, unconsciously or not, is responsible for the present state of affairs and which has put forward no fundamental suggestions to the attainment of anything better than conditions which led to the Great World War. I think, therefore, that criticism of a literary style, which has, in however small degree contributed to the growing lack of reverence for the pronouncements of orthodox finance is based rather on annoyance at the results obtained than on concern for the niceties of the English language.
>
> Mr. Hawtrey infers that he has read my books and that he understands them. I do not think he does understand them, and I think that this lack of understanding, if he will allow me to say so, has little or nothing to do with my literary style. It is that he is too cocksure about what ain't so. For instance on page 404, he says: "His point appears to be that the wages, salaries, and dividends comprised in the cost of the capital goods have been paid out at some previous time, and therefore do not figure in the *present* effective demand. But he forgets that they did figure in the effective demand at that previous time, and that the wages, salaries and dividends comprised in the cost of capital goods *now* being produced for future use figure in the present effective demand".

Now I think this one paragraph is quite sufficient to discount anything Mr. Hawtrey may have to say on the subject. In the first place there are *no* dividends being distributed in respect of present production. That is a comparatively trivial, but significant, mis-statement. The main point is that I say, in effect, that the present *earnings* of the public are insufficient to buy the present production. Mr. Hawtrey considers it to be a complete answer that by means of an *advance* against future production, which advance is added to the insufficient *earnings* of the time period under consideration, I can buy what I produced. The argument is exactly similar to saying that although a man owning an estate worth ten thousand pounds, returning 5 per cent, finds it impossible to live on five hundred a year, he can live by raising a mortgage on the estate and spending, say three hundred per annum in addition to his income out of the sum raised by the mortgage. He can; and the estate will still be there. But it will eventually pass to the mortgagee. The estate in question is both present property and future production, and it is passing to the financiers.

Subsequently, he says, "The price received by any producer must, it is true, cover not only the wages and salaries that he pays, and his own profit, but also his outlay on materials; but his outlay on materials is a payment (probably through a dealer) to another producer, who like the first, distributes part of it in wages and salaries, retains profit, and probably also has to make good some payment for materials. The end of the series comes in the payment of rent to the owner of the land from which the materials are derived". Has Mr. Hawtrey ever heard of a factory, which paid the workmen who produced a given set of articles out of the *Price* (not a loan in advance of Price) received for those identical articles? The money received by one factory from another factory in return for its products, minus profit, simply goes to payoff a bank credit, using this phrase in its widest sense.

Mr. Hawtrey says: "The most surprising omission from Major Douglas's theory is that he has nothing to say about the investment of savings made out of income. If a manufacturer receives for his product a price sufficient to cover, not only the direct cost of production, but also the cost of an extension of his plant, and, if he makes the extension, that means that he has refrained from spending in other ways the money required for the extension".

Now this paragraph is a striking instance of the complete detachment of theoretical economists from the physical facts of production. If I earn by manual labour a sum of money which represents a proportion of the price of the article which I have produced, and I refrain from spending it, I do not save the article; it is either wasted or has to be exported; the purchasing power required to buy articles already produced is still further decreased in relation to the available goods. Nothing is more incomprehensible to an engineer or a physicist than the idea that, having made a thing and refrained from using it, you have therefore performed an act of economic merit. But it is quite easy to the financier and his economists to build up a system on such a basis.

Subsequent to the paragraph quoted are a number of criticisms, which I can honestly say I find far more confusing than anything I have perpetrated myself. As far as I can see, these criticisms are generalised in the statement that "Major Douglas's belief in a continuing excess of price values of things produced over money incomes arises partly from his omission to take account of *savings"*. I have just dealt with this, but so far as the exact form in which it is put means anything in particular, it seems to mean, inevitably, that the *cost* of the articles *saved,* and therefore not consumed, is put into the price of the articles subsequently produced and financed by means of the *savings:* which is exactly what I say.

The criticism then passes to the scheme appended to *Credit Power and Democracy,* as a draft scheme for the mining industry. There is nothing in this part of it, which has not already been answered in a commentary already published on Mr. Sidney Webb's report.[12]

I am a little surprised to see that Mr. Hawtrey[13] states in connection with this scheme, that "Prices are to be fixed by statute". Mr. Hawtrey infers that he has read *Credit Power and Democracy*. A considerable amount of attention is devoted in this book both to the futility and the undesirability of fixing prices, and the method by which this fixing of prices is avoided is of the very essence of the whole proposal. What is fixed is the relation of the general price level to production and consumption, which is a very different matter.

It cannot escape the attention of those who have had the advantage of reading both Mr. Webb's Labour Committee Report and Mr. Hawtrey's article that the latter is a running commentary on the former even to the kindly condescension of occasional words of praise interspersed with sentences such as: "It is necessary to re-read and re-read the utterances of stammering Moses to extract the precious grain of nonsense hidden under their verbiage."

I think it will be agreed, however, that Mr. Hawtrey would have been better advised to adhere more closely to the Parliamentary manner of his predecessor.

As might be expected at the present time, Mr. Hawtrey's magic word of power is stabilisation. They are all saying it. It is a large subject, and it may be said without question that stabilisation in the form which is intended by most people who are saying it is a proposition to the general public straight from Omar Khayam – "Oh! take the cash and let the credit go" – to the financiers.

I may perhaps be allowed to quote from my evidence before the Select Standing Committee of the Canadian House of Commons on Banking and Commerce in this connection:

> Whatever are the conditions of the currency necessary to achieve the maximum of production and distribution of goods and services, either to the limit of capacity or the limit of real demand, those conditions are the determining thing, not either the stability or the variability or any other characteristic of the currency. The financial system should be entirely subsidiary to whatever is necessary to meet the primary contention that you would be able to produce or distribute either up to the limit of capacity or the limit of real demand whichever comes first, and currency and prices should conform to that end irrespective of whether they are stable or whether they are not. I am not saying that they should be stable, or that they should not be stable. I am merely saying that it is not a prime necessity.

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

> Mr. Hawtrey finally inquires: "Is there, then, nothing but fatuity in Major Douglas's proposals?"
>
> He might conceivably be right, although I, with others, do not think that he is, and all the evidence and probabilities are against him; but I am quite sure that a little less Billingsgate and a little more competent logic will be necessary to make that criticism effective.[14]

It would be a long task to reproduce all of the answers that Douglas provided to his critics, some of whom were obviously politically motivated, and others who were accountants or involved in economics teaching, *etc*. Most of these were in the form of letters and were produced in *The New Age* publication. These are never referred to by present day critics who prefer to refer to some persons of note at that time and who were in a profession of economics, banking, accounting or a politician with a background in those areas.

The critics who wrote and laid claim to the fact they had "discredited" Douglas and Social Credit were all answered at one time or another by Douglas although this is never admitted by those current day experts. It is probably unfortunate that so much of Douglas's time was committed to answering these people but the continuous flow of incorrect statements, incorrect assumptions and deliberate distortions made this necessary. It would appear possibly one of the reasons that led Douglas to the understanding that it was of no use discussing technical matters with people unless they understood the philosophy of Social Credit. In other words, many of the opponents of Social Credit criticised the Policy and technical detail from an ideological point of view that differed from Social Credit Philosophy.

In 1924 the criticism continued from a particular quarter, namely The Labour Party and certain individuals who had and still have beliefs as to how society should be organised and run. Douglas continued to answer these critics.

Speaking to the Conference of the Social Credit Movement at Hove, January 10th. 1924 he said:

> The attitude I am taking up in speaking to you tonight is that I am addressing a body of colleagues and friends who may be expected to be desirous of hearing the plain truth.
>
> It was mentioned that certain objections had been made to the proposals and the theories which we support, and that these objections did not seem to have been answered. So far as the fact is concerned there have been I think, for all practical purposes, three definite attempts to combat the theories which we are concerned in discussing here. The one is the Labour Party Report on the scheme and the principles, which underlie it. The second is the article in an obscure journal – I think I am justified in calling it obscure – by Mr. J. A. Hobson, and the third is from the well known economist, Mr. Hawtrey. I have answered these three attacks carefully. I think they are the only three I have ever answered. They were attended to with due consideration because they came from responsible sources. *These attacks have been logically and absolutely disposed of.* (Emphasis added – Ed.) I mean that, in every case where the attacks were technical attacks, they have been shown to be only plausible attacks by starting from a set of premises with which it is our business to disagree.
>
> If you will admit the premise of the orthodox economist you are done. Granted a given set of premises and a properly working logical machine, it is quite impossible to arrive at other than one set of conclusions. The point, which I want to make with regard to that is that, to anybody who is unfamiliar or unconvinced, it is a sheer waste of time to chop logic about deductions. We are perfectly prepared to admit the deductions of the orthodox economists from their premises.

It is quite sufficient for the ordinary person to get it perfectly clear in his mind that the premises from which the orthodox economists start are directly opposed to those from which we start. He can then decide either for or against the proposition.

What are these contrasting sets of premises? That of the orthodox economist is that the economic industrial system is contingent on the working of certain arrangements with regard to finance and employment. That is to say that it is quite a sufficient reason that work should be not be done or goods distributed if and when the financial arrangements do not permit. You cannot build a house if you have not got the money. You cannot distribute goods if people have not the money to pay for them; and they cannot get the money without the methods hallowed by precedent.

In other words, the present system revolves around finance as a pivot. In opposition we take up the attitude that the money system is merely a ticket system, a method by which all goods can be distributed in a natural and systematic manner according to the actual requirements of the population. We say that the pivot on which the financial system ought to work is *actual demand* taken in conjunction with the *possibility of supply,* and if the tickets do not make of that real demand effective demand to its limit, you have to change the financial system. That is all that needs concern the person who wants to know if we are on the right track. They may say that there are many other things besides the question of meeting real demand backed by effective demand.

There is the question of whether the people are worthy to get the goods. But if they have any such reservations, then they do not agree with us that money is purely a voluntary arrangement for the distribution of goods and services which the modern system can supply.[15]

CHAPTER IV

To the extent that the same questions and answers occurred during the period 1920-31 it might be said that it would appear to be completely boring. Nevertheless, there appeared in the period between 1931-35 what could only be called a profligate and proliferous number of books and material in books devoted to "discrediting" the work of Douglas. This is understandable in one sense and yet in another quite remarkable. Douglas had forecast the problems that were likely to occur under the financial system that operated at that time, and of course, with the coming of the Depression it would appear that all stops were out to put a halt to the tremendous interest that had been aroused in Social Credit. It did not necessarily mean that all of those people were Social Crediters who in fact were not. However this did not stop the critics from seizing on utterances from those who had adopted part of the monetary ideas to fit into their own particular sphere of interest. In fact, many of those were people whose philosophy was the very antithesis of Social Credit.

Amongst some of the critics during this period was *The Bulletin*[16], an Australian publication that attempted a crude criticism, the totality of which need not be repeated here other than to exemplify the churlish and glaring inadequacy in the thinking of the writer, not to mention the inability to understand Douglas. Points raised in *The New Economics* can be restated in brief:

The Age newspaper September 24, 1931, which carried an advertisement of the article in *The Bulletin* had already circumscribed its position by an item that appeared in a previous issue 20 August which it answered itself on September 23, 1931. In the main this suggested, August 20, that:

> In the Social Credit Analysis and Proposals we have the solution of the problem, and the technique for the easy substitution of a new financial policy. These matters were laid before the Macmillan Committee more than a year ago by Major Douglas, argued by him and defended by him in cross-examination. Yet no record of them has been published, nor is any allusion made to them in the report.

It may be that a publication, which appeared in 1931, gave rise to the flurry of other writings condemning Social Credit.

Professor A. L. Gordon Mackay who was Professor of Economics at the University of Rangoon, was well recognised as a Lecturer in Economics and Director of Tutorial Classes at the University of Adelaide, and who held a Rockefeller Fellowship at Trinity College Cambridge. He had also spent two years visiting France, Germany, Czechoslovakia, Austria and Italy, in order to make a special study of central banking and of the departments of economics in the ten major Universities of Europe.

His book *Economics*[17] included coverage of the views of C. H. Douglas and although not strictly correct it was an attempt at a balanced review. In it he remarked:

> Douglas's views do not appear to have been accepted by orthodox economists; on the contrary, the writer has seen no considered discussion of his views by any competent economist anywhere, though several off-hand references have appeared in one or two minor books. The bankers generally have pronounced neither in favour of nor against him, though there have been one or two minor references to his work, of a critical character, in banking journals. It is probably a fair statement of his position to say that his proposals have not yet been analysed by any competent academic economist, banker, or prominent businessman for a considered judgement to be passed upon them.

It was in 1933 that Douglas founded The Social Credit Secretariat to provide authoritative guidance and to guard against the misuse of his ideas. This was regarded as necessary because of the attention that was being given to these ideas and of the real danger, that by using the title or label of *Douglas Social Credit,* "proposals may be put forward for the consideration of the various communities concerned, which, however honest in intention, are technically unsound or else, in relation to the circumstances in which they are put forward, politically undesirable or both."[18]

Douglas had attempted on different occasions, in correspondence, to address the question on his replies to critics. Although his public debates and articles answering critics had achieved publicity there were still many people who were not aware of this. A letter to a correspondent, published in Social Credit, December 7, 1934 provides information on this, and this was followed by noting all the objections to Douglas's proposals by people who were regarded as being and accepted as responsible sources. Douglas wrote:

> . . . I am interested to hear that Mr. Hawtrey at the meeting of the Engineers Study Circle characterised the Douglas Theory as "puerile". This appears to be a relapse into the manner of an article he wrote about 1923 in *The Pilgrim,* which was unadulterated Billingsgate, and was accompanied by a statement of his belief that the correct objective of a satisfactory monetary system was a stable price level. I have never, myself, been able to find a satisfactory adjective for an objective which would require that the price of neckties rose when the price of bread fell, and I notice that Mr. Hawtrey in common with other professional economists, is now not quite sure that this would be wholly desirable. (Cf. D. H. Robertson's chapter in *The International Gold Problem,* F. A. Hayek in *Prices and Production,* and *Monetary Theory and the Trade Cycle,* and R. G. Hawtrey *The Art of Central Banking,* Chapter V.)
>
> Since, however, this tendency to become abusive appears to be inherent in some of the professional economists who deal with these matters, and as I agree with you that they do, as experts, command a considerable, though diminishing, amount of attention from those interested in the problems of finance, it seems desirable to put upon record the four occasions on which my views have been the subject for formal debate with them in this country. They are (1) The Debate with Mr. Hawtrey at Birmingham in 1933, (2) The Wireless Debate with Mr. D. H. Robertson in 1933, (3) Chapter VIII of Mr. Cole's book written by Mr. H. T. N. Gaitskell, (4) My address to the Marshall Society of Cambridge on October 20, 1934.

Mr. D. H. Robertson was present at this address, and took part in the debate, which followed the address.[19]

I have no hesitation in saying that neither in the case of the two formal debates, nor in the case of my address at Cambridge, in which I put forward certain aspects of my case to the Society, was any serious attempt whatever made to meet my position. Mr. Hawtrey's contribution to the debate at Birmingham consisted in an able exposition of the orthodox theory of the balanced budget. Mr. D. H. Robertson's reply to my opening statement of my case in the Wireless Debate completely disregarded this statement, made no attempt to reply to it, substituted a statement which was not mentioned in the opening statement of my case, and demolished this substituted statement on the basis of hypothetical answers to questions with which the time limits of the debate did not allow me to deal, and which were subsequently answered at length in *The New Age* in a totally different sense to that which Mr. Robertson evidently expected.

At Cambridge Mr. Robertson, together with others, ignored completely the technical question which was put to him in my address, and which was also put to Mr. Hawtrey without obtaining an answer. Mr. Gaitskell's criticisms were completely answered and his argument disposed of by Mr. J. Adamson in *The New Age* of December 28, 1933.

I have no doubt whatever as to the fundamental reasons for the divergence of my views from those of the professional economist. The professional economist believes, whether he is aware of it or not, that it is possible to have a science of money, which is self-existent and independent of the progress of the industrial arts. I do not.

For this reason 1 do not think that any economist who at one and the same time believes in a suitable price level and a balanced budget in connection with the modern production system can have anything of value to offer towards a constructive solution to our difficulties.[20]

One of the first persons around this time to write a critical comment on the question of costs and incomes was E. F. M. Durbin, B.A. sometime Scholar of New College, Oxford, and Assistant at the London School of Economics. He wrote *Purchasing Power and Trade Depression – A Critique of Under-Consumption Theories* (London & Toronto: Jonathan Cape, 1933.)[21] He is one of those "critics" referred to by David Clark (to whom we shall return) in his article "Monetary Cranks" published in *The New Palgrave Dictionary of Money and Finance*.[22]

To blindly quote in a bibliography a book as a reference to support one's argument as David Clark has done, without discussing the argument from both sides and drawing your own conclusions so these may be challenged is intellectually dishonest, to say the least. The above publication is obtainable for those who may wish to read it in full and compare with Douglas. Even the title of his book includes a statement, which in itself is misleading: *"A Critique of Under-Consumption Theories",* makes an assumption that under-consumption and over-production are synonymous, which of course they are not. It is possible to have under-consumption because of lack of purchasing power in a period of production. It is also possible to have under-consumption in a period of *under-production,* for example in a drought or under war conditions. To this can be added that he, like many others dismissed, or did not take into his calculations a time factor. Therefore his commencing premise, being incorrect, must lead to an incorrect conclusion. He says:

> "They claim that the total income of the consumer can never equal the costs of producing consumption goods, and that consequently the economic system can never continue production without permanent and increasing losses, for the total consumer's income sets the upward limit to the amount which can possibly be spent on consumption goods. If that upper limit is below the total costs of production, then even without the further subtraction of saving, net losses are inevitable. The first question with which we are concerned is therefore this: Is it true that the consumer's income *cannot,* **under any conditions, be equal to the cost of consumption goods?"** [Emphasis added – Ed.]

The first point to be made is that this is what he – Durbin – claims that Social Credit claims, which is not correct. The second point is that his question begs the question. No Social Crediter has ever made the claim that the consumer's income, *under any conditions* cannot be equal to the cost of consumption goods. It is another example of the 'straw man argument', *i.e.* put up your own incorrect interpretation as a premise and then demolish it, and then claim that you have discredited your opponent's argument.

For our purpose to dispose of the erroneous claim that it is one of those books that has "discredited Social Credit" it is only necessary to quote from some correspondence between the two parties published in the *Times Literary Supplement* and reproduced in *The New Economics,* November 10, 1933.

> Sir, — In your review of Purchasing Power and Trade Depression by Mr. E. F. Durbin, B.A., you state, as does Mr. Durbin, "that Major Douglas's specific error consists in not seeing that it is only the cost of production of consumers' goods that need be covered by consumers' income. To add up each money payment between the successive stages of production, to call this 'total costs' and to argue that this must be covered by consumers' income, as Major Douglas does, is simply to count the same thing a great many times over. "
>
> I cannot help thinking that many critics of my views would save themselves much trouble if they would pay careful attention to the words which I use.
>
> The paragraph in my books on which the above criticism is based reads as follows: "The rate of flow of purchasing power to individuals is represented by A, but since all payments go into prices the rate of flow of prices cannot be less than A plus B . . . . Since A will not purchase A plus B, a proportion of the product at least equivalent to B, must be distributed by a form of purchasing power which is not comprised in the descriptions grouped under A." (There is an obvious misprint in the quotation, as it appears on page 184 of Mr. Durbin's book.)

All B payments in the above statement are payments for the transfer of goods from one intermediate producer to another. If the accounts of each of these intermediate producers were examined, it being assumed that they are solvent, they will be found to have balances, or at least bank credits, which exist largely for the purpose of distributing B – *i.e.*, intermediate products. At the time that these balances stand to the credit of these organisations, I should have thought it was evident that they are not credits available to consumers *i.e.*, they are not the same thing as A payments; therefore it is a simple statement of fact that these B products must be distributed by a form of purchasing power which is not comprised under group A.

The analysis of the bearing that the existence of these B payments has upon ultimate prices involves a number of intricate factors, which have been dealt with at considerable length in my later books, but I believe it to be beyond discussion that in these B payments can be found amalgamated most, if not all, of the causes of the disparity between collective prices and available purchasing power, which is almost universally admitted. The one important exception is mere abstention from buying, even where purchasing power exists.

I propose to deal with the criticisms contained in Mr. Durbin's book in due course; but, perhaps the foregoing remarks may suggest that they are based upon a primary misapprehension of what I had in fact said.

Yours Faithfully
C. H. Douglas
July 20, 1933.

Sir, — Major Douglas claims that I have misrepresented him in saying, in my review of Mr. E. F. M. Durbin's *Purchasing Power and Trade Depression,* that

> Major Douglas's specific error consists in not seeing that it is only the cost of production of consumers goods that need be covered by consumers' income.

> To add up each money payment between the successive stages of production . . . and to argue that this (total of payments) must be covered by consumers' income, as Major Douglas does, is simply to count the same thing twice over.

In the relevant passage in his book Major Douglas writes:

> "The rate of flow of purchasing power to individuals is represented by A" [all payments made by producing organisations to individuals], "but since all payments go into prices the rate of flow of prices cannot be less than A plus B . . . ." (B being defined as all payments made by one producing organisation to another). "Since A will not purchase A plus B, a proportion of the product, at least equivalent to B, must be distributed by a form of purchasing power which is not comprised in the descriptions grouped under A".

Now, whatever arguments Major Douglas may have subsequently devised to support his proposals, it is clear that the only meaning which can be extracted from the passage quoted, if any meaning can be extracted at all, is this: The 'rate of flow of prices' is A plus B, but the 'rate of flow of purchasing power' is A; prices, therefore, could only be maintained if A (consumers' income) were increased to cover B (all payments made by one producing organisation to another). This is precisely what I stated in my review.

The Reviewer, July 27, 1933.

Sir, - May I be allowed to point out that Major Douglas does not meet the central point of criticism which I advanced against him in my book, and which was emphasised by your reviewer? In his earlier work Major Douglas argued that the existence of payments between producers (B payments) made it impossible that the whole of the final product of the industrial system should be profitably sold. Now in his more recent writings Major Douglas has changed his position, and tries to prove that only some of the B payments will create such a deficiency of purchasing power.

It was not possible for me to go into all the different forms of Major Douglas's theory in the space, which was available in my own book, but this has now been done in Mr. Gaitskell's contribution to the forthcoming symposium on Banking, edited by Mr. G. D. H. Cole.

In my own book I merely advanced an argument to prove that as long as all the available purchasing power provided by the industrial system is spent at a constant rate the consumer's incomes will be sufficient to purchase the final product of industry. (It would appear that the word consumer's should be consumers' – added). If this argument is correct the whole structure of Major Douglas's position falls to the ground, and nothing in his letter of July 20 deals with this central argument.

As for Major Douglas's statement that "most, if not all, of the causes of the disparity between collective prices and available purchasing power, which is almost universally admitted," are due to changes in the relations between B payments and A payments, as defined by him, he could not find more hearty agreement than in a mere economist like myself. Orthodox economists were saying this twenty years before Major Douglas began to write.

The only dispute between Major Douglas and them is, as to the nature of the changes, which cause the ultimate deficiency of consumers' purchasing power, which is so much in evidence during a depression.

I must apologise for the misprint on page 184 of my book, to which Major Douglas refers. In the second binding of the book an 'errata' slip has been inserted.

Yours Faithfully
E. F. M. Durbin
August 10, 1933.

A + B and All That

Sir, - Your reviewer would simplify the difficulties which he appears, somewhat unnecessarily, to find in a simple statement of fact, if he would accept or deny the truth of the statement that in any given factory or producing organisation (a qualification which is omitted from his quotation) payments may be divided into two classes – those which are made to individuals and form consumers' spending power and those which are made to other organisations, which are a reimbursement of costs previously incurred by those organisations.

The price values created in a given period of time in a given factory either are, or are not, at least the sum of these two classes of payment, assuming that the concern is solvent. If your reviewer will kindly say definitely whether they are, or they are not, added together in the price values created by any factory in a given period of time, he ought to be able to find his own answer as to whether the rate of flow of prices from that factory is not greater than the purchasing power distributed to individuals by that factory in the same period of time. There is nothing in an affirmative answer to this statement, which justifies his statement that I count the same thing several times over, which is the statement of which I complain.

The intervention of Mr. Durbin into the controversy at this point seems to be in the nature of "swearing he would ne'er consent, consented." While I regret that his hearty agreement that the causes of the *disparity between collective prices and available purchasing power "are due to changes in the relations* (my emphasis) between B payments and A payments" is an agreement with something that I have not said in that form, I accept the crumb of praise gratefully and without too much examination. If Mr. Durbin and those who think with him said it twenty years ago I am delighted to hear it. My only complaint in this case is that it does not appear to have caused them to propose anything, which would obviate the difficulties, which have arisen.

So far as I am aware, there are only two concrete suggestions arising out of the school of economic thought to which Mr. Durbin belongs. The first of these is that prices must be raised, by something which is variously called “inflation” or “reflation”, but which, however named, involves an increase of debt, and that the mechanism for doing this is through public works on a large scale, the wages and salaries in respect of which will make up the deficiency in purchasing power, which he apparently now admits. Since it is my contention that this deficiency of purchasing power arises from the pyramiding of debts and the attempts to repay them mainly through the agency of B payments, I am still at a loss to see how the intensification of the disease is likely to effect a satisfactory cure.

While no-one would be more content than myself to heal the friendly breach between those responsible professional economists who hold such views as Mr. Durbin’s, and the similar views held not merely by myself, but an increasing number both of the public and economists, I believe that the difference is not so much in anything that I have said as in those things which are still being said; for instance by your reviewer and Mr. Durbin. For instance, that “it is only the cost of production of consumers’ goods that need be covered by consumers’ income”. If by this is meant that the cost of production of consumers’ goods, measured in monetary terms, is only the amount which is distributed in the same period of time to consumers (without an excessive production of capital or export goods), then I heartily and flatly disagree. I have given some of my reasons for this disagreement in my printed reply to the questions, with which a recent wireless debate on this subject was concluded, and have not, so far, had an answer.

Yours Faithfully,
C. H. Douglas
August 17, 1933.

The comment by Mr. Durbin, having admitted that there was an ultimate deficiency of purchasing power, and that orthodox economists had said this twenty years before, raises an interesting observation. Whilst Douglas did not deny this claim by Durbin, which would appear to be a case of prior knowledge to gain an authoritative position, Douglas welcomed the admission and made a pertinent comment. "My only complaint in this case is that it does not appear to have caused them to propose anything which would obviate the difficulties which have arisen."

If it was acknowledged by orthodox economists twenty years before, around 1913, surely there would have been some evidence, not only of the recognition of the problem but some proposal to overcome the difficulties effected by it.

Yet in 1921, two years after Douglas had written *Economic Democracy*, the controversy raged on the problems of unemployment, the wave of industrial depression, the increasing debt, and the lack of a remedy. Arthur Kitson, an author of books entitled *The Money Problem, Trade Fallacies, A Fraudulent Standard, etc.,* wrote his *Unemployment – The Cause and a Remedy*.[23]

In the last mentioned book he explains his reason for writing it and the discussions surrounding the purpose. In his Foreword he writes:

> In the month of February last the writer of the following articles was a guest at a dinner party in London at which several well-known financiers and merchants were present. The conversation soon turned upon the question of the country's industrial paralysis and each member was asked to express his opinion as to the cause and to suggest a remedy. The first speaker, a merchant, said that periods of trade depression and unemployment are the result of natural laws and have occurred every 10 or 12 years for the past century and are unavoidable. Another quoted with approval the statement of the Prime Minister that the crisis is the result of the war and that unemployment is inevitable and irremediable.

> A third member, a financier, said that our troubles were the direct consequence of currency inflation and the creation of paper money. He added, 'If we had stuck to gold, all these difficulties might have been avoided'. His remedy was to return to the gold standard.[24] A fourth attributed the cause to the unreasonable demands of labour.
>
> 'We must first reduce wages', he said, 'and so bring about a fall in prices if we are to escape from the present morass into which the Government has driven us by its foolish pandering to labour'! A fifth member held the Government responsible by reason of their having retained so many restrictions upon trade since peace was declared. 'Free and unrestricted trade', he added, 'is the only remedy'.

In the opening statement in Chapter I: *Is there a Remedy? Root Causes,* The Editor of the *Times Trade Supplement* writes:

> Recently a number of financial and commercial experts, after discussing unemployment, came to the conclusion that there was no remedy. Mr. Arthur Kitson, who was present, demurred with the result that he was challenged to publish a solution of the problem. The challenge was promptly accepted, and as we can conceive no subject likely to be of greater interest to our readers we gladly acceded to give publicity to his views.

However, in spite of the offer by the Editor in the above articles, the presentation of them contained a controversy in itself. The articles were produced in the book *Unemployment – The Cause and a Remedy* and the inclusion in his book of the following excerpt of a letter further highlights the situation. Under the heading "Mr. Kitson's Rejoinder – To the Editor of the Times", he said:

> Sir, - In view of your comments on my reply to your City Editor and in justice to myself, I must again refer you and your readers to the origin of this discussion.

> I was challenged to furnish a remedy for unemployment. The Prime Minister and other members of the Government had stated that there was no remedy for this evil, and this was mentioned and endorsed at a meeting of several financiers at which I happened to be present. With this assertion I disagreed, and said that there were several remedies, whereupon I was challenged to produce one. The challenge was not that I should furnish an entirely novel and original remedy of my own conception, but *any* remedy. Among several I selected one I considered the most feasible – namely, that prescribed by Major Douglas. Having described this in my articles, your City Editor insinuated that I had failed to furnish any remedy, and when I inquired why he had deliberately ignored the one I offered, you say in your comments, "Our City Editor was not called upon to deal with Major Douglas's book, but with Mr. Kitson's remedy". But, 'Mr. Kitson's remedy' is the one I selected, and is therefore the one that your City Editor, if he were able, should have dealt with.

This latter letter, apart from substantiating Mr. Kitson's position also confirms the media approach to Douglas. Because of the gathering momentum of acceptance of Douglas' ideas in different quarters an embargo, emanating from the financial powers, was placed upon any publication or reference to Douglas's works that did not claim that they were fallacious. Mr. Kitson's letter is proof indeed of the existence of such an embargo.

CHAPTER V

It is of more than academic interest that the period between 1923 and 1930 produced little criticism other than sporadic letters and it was not until 1930 and for the next few years following that there appeared a barrage of books by writers attempting to counter the work of Douglas. All, who attempted to discredit his work did so by either attacking his A plus B Theorem or resorting to personal attacks on his literary style which were claimed by them to be of “shallow reasoning”, “a type of mind difficult to understand”, “ ... Douglas possesses a remarkable gift for combining the false and true in an ingenious mixture that is presented, in the main, in an entertaining manner. He has lapses, however, into obscurities of diction as to his real meaning”, “It will be found that, when stripped of specious verbiage and reduced to prime essentials, the Douglas theories are based on fallacious premises and sustained by arguments that are utterly unworthy of the credence of the more intelligent section of the community”.[25]

An article that appeared in *The New Economics*[26] discussed the language used by Mr. Docker in his *Douglas Delusions – A Critical Examination of the Douglas Social Credit Proposals*. The title itself provides an indication of what may be expected in the content.

THE NEW ECONOMICS, December 8, 1933.

DOCKER v. DOUGLAS

The latest criticism of Douglas is a 244-page, cloth bound book by Mr. F. J. Docker, A.I.C.A. (Aust.), published by Messrs. Angus and Robertson for the extremely reasonable price of 4/6. So reasonable is the price that, however good an accountant Mr. Docker may be, he is not impressive as a financier, for considering the limited appeal of a technical and destructive work of’ this nature, it is unlikely that he will receive any considerable profit from its sales. On page 5 the author says:

> It may seem to some readers that we evince but little desire to mince our words in the course of this criticism of the Douglas Theory. We ask those who are disposed to think this to bear in mind the pungent phrases quoted hereunder from the writings of Douglas in description of such people as decline to see eye to eye with him.

There follows a series of extracts from Douglas' works, in which adverse comment is made upon economists, bankers and accountants. It is clear from the tone of the rest of the book that the word "pungent" was a happy choice on the part of Mr. Docker when describing the phrases that he quoted. By derivation "pungent" means, "pricking"; and it appears that Douglas has not merely pricked the sensibilities of Mr. Docker, but has plunged at least a bayonet into him. The following garland of gibes shows Mr. Docker at his best, although it is representative only of quality and not of quantity.

Page 7 – "The lack of logic ordinarily exhibited by Douglas."

Page 16 – ". . . blunder of the first magnitude."

Page 18 – "The cardinal blunder made by Douglas."

Page 29 – "The claim made by Douglas a monstrous fabrication."

Page 31 – "He does not seem to grasp the most elementary facts of political economy or finance."

Page 32 – "We shall find many examples of such shallow reasoning."

Page 36 – ". . . the very apparent lack of understanding of banking procedure evinced by Douglas."

Page 42 – "The ideas are utterly ridiculous."

Page 46 – ". . . overlooked the vital point . . . ."

Page 51 – ". . . so much solemn nonsense . . . . "

Page 51 – ". . . his lack of any knowledge concerning the velocity of money."

Page 54 – "The assumptions made by Douglas are entirely erroneous."

Page 55 – ". . . important items that are omitted by Douglas."

Page 62 – ". . . a complete misunderstanding of banking practice."

Page 68 – ". . . loose thinking."

Page 79 – "There is nothing wrong with his conclusions, but the trifling matter of facts."

Page 80 – " Ignorance of banking practice on the part of Douglas."

Page 99 – "Obscurity and lack of precision in the use of terms."

There are 244 pages in the book, and the vehemence does not abate after page 99 – at least not noticeably. One almost receives the impression that personal feeling has outweighed judgement and reason. If this is the case, it is superfluous to comment that such a hysterical condition is not conducive to cogent criticism.

If the author's opinions of Douglas' mentality and knowledge are in any way accurate or justified, Mr. Docker has quite evidently expended a considerable amount of energy upon an entirely unworthy subject. We regret that Mr. Docker did not realise that, since Douglas is so hopelessly and stupidly ignorant, the wise course for the intelligent accountant is to sit back, laugh, and await the inevitable discomfiture of this "shallow reasoner," this propounder of "solemn nonsense."

After all when a wayward child, unconvinced by adult argument, persists in a vain endeavour to lift himself by his own boot straps, what else can the philosopher do but laugh and wait?

The A + B Theorem is apparently not altogether accurate, for Mr. Docker has accounted for no fewer than 11 flaws in it, and his conclusion is worth recording in nice black type:

> **In other words, the theorem is a myth, a chimerical proposition which could only be conceived in the mind of an impractical visionary, unacquainted with the most elementary principles of economics, logic or accountancy.**

There are various reasons for some of the vehement antagonism against Douglas. Some were on political grounds, some both ideological and political as for instance certain Fabian Socialists of the time, some who felt possibly that their authority in their chosen profession as economists or accountants or in the public service was under threat, and some who were genuinely misguided through lack of understanding. There were also others who probably felt that they could become known by entering the fray. One of these latter writers was a John O'Rockie who wrote his own personal publication in a "Me Too" fashion.[27] A frontispiece was dated February, 1931. His Introductory was dated, June 1929, although published in 1931. His Post scriptum was dated 2/4/23, and in it he tells us that:

> No one purporting to deal with price, which is virtually the subject of this little work, could hardly write upon such and make no reference to the work already done upon this subject by the New Age Group, and more particularly by those members of that group, Mr. Orage and Major Douglas, unless he were ignorant of their work, which might very well be the case. And who is to know whether I am acquainted with Douglas's work or no? What I want to say is that to those acquainted with the work of the gallant major, they may be pardoned for assuming that my treatise, so far as it deals with price, is a sort of rehash of Douglas's work.

> But they would be quite wrong all the same in such assumption. *Economic Democracy* and *Credit Power and Democracy* first ran serially in the columns of the *New Age*, beginning some time in 1919. With these articles I am not unacquainted, but, like many others, I found Major Douglas's style rather unwieldy and difficult to follow. Of course, where he adopted engineering or mathematical terminology or formulae, my ignorance of these subjects was to blame.
>
> For most part, where I could fathom his argument, I found Major Douglas advancing arguments with which I agreed, and coming to conclusions I had already formed in many cases . . . . The exposition of the banking and credit system I give has been at divers times since August 1916, used by me . . . . I think I can truthfully state my work is no mere piracy of Douglas. I started on this line of reason in 1916, and had reached most of my conclusions by the time Douglas appeared on the scene. But I had been hesitant to advocate my conclusions loudly or strongly, as some of them seemed so obvious, and almost simple.
>
> When I saw the articles in the *New Age* I felt dished. I had started definitely about December 1919, to set my thoughts on paper, then dropped them for a time, taking them up again and finishing them early in 1922. Then, when I thought I would publish, I discovered my MSS. had "disappeared", and had to work from a carbon copy of portion of MSS., and fill in blanks as best I could. But there is a serious gap of nine foolscap pages. Sickness and death in my family, and the becoming a martyr personally to insomnia, have made the work of rewriting my essay a hard and laborious task.

Numerous letters for and against Douglas's ideas had been written to *The New Age*. This continued with the introduction of *Social Credit,* the official journal of The Social Credit Secretariat.

Because of the number of pseudo Social Crediters and misinformation being written about Social Credit, Douglas formed The Secretariat as a body that would be the official authority on Social Credit.

Before commencing to look at some of these writers it is worthy to note that the MacMillan Committee Enquiry of Finance and Industry preceded them. Douglas submitted evidence to the Committee when he was invited to attend. He appeared on Thursday, May 1, 1930, the twenty-fourth day of the sitting. Some of the critics of Douglas quote from the evidence of this report to prove their criticism. It is not intended to demolish every incorrect argument provided because this would be a mammoth task. If readers wish to carry out their own research the material is available. It is only necessary to give a couple of examples of the thinking and assertions made.

It may be argued that it is not necessary to go into any detail relating to the MacMillan enquiry, or that it is superfluous and there is [no – Ed.] justification for such consideration. Many of those who have written and criticised Douglas have claimed that he was examined by the enquiry and was found wanting and as a result his proposals were rejected. Of course nothing could be further from the truth. Douglas did submit evidence and was questioned by members of the Committee. However it is untrue to even claim that his proposals were examined, discussed and ultimately rejected. This false claim has been repeated many times by those who, by their professional position or prestige, have inserted some respectability to their deceptive and misleading accusations. The truth of the matter can be verified by anyone interested in obtaining the facts in referring to page 240 of the MacMillan Committee Report. In the reservation signed by Sir Thomas Allen and Mr. Ernest Bevin the following passage appears:

> We also desire to point out that the Committee decided to examine monetary policy only on the basis of the gold standard and, therefore, no alternative to the gold standard was examined or discussed . . . . (emphasis added)

It is no excuse for a professional person, economist, banker, accountant, or politician to claim ignorance on a subject that is within the ambit of their expertise. Nor is it sufficient excuse, after having made a specious claim that they did not understand because Douglas was so vague in his writing or difficult to understand because of his lack of literary prowess.

The publication by F. J. Docker, Associate of the Institute of Chartered Accountants (Aust.) entitled *Douglas Delusions – A Critical Examination of the Douglas Social Credit Proposals*[28], provides some indication to what can be described as woolly thinking, although the title of the book suggests a premeditated attempt to influence a prospective reader.

Docker makes a foolish claim by inference that banks do not create credit and ridicules the idea by saying:

> The fervid social credit advocate has many quaint notions concerning the world of industry and finance, but none more subversive or dangerous to society than his views on the subject of banking and issues of credit . . . . He will tell you with a fanatical gleam in his eyes that bankers, when they lend, create money by the stroke of the pen, an operation costless to them, for it involves a matter of book entry only. He is emphatic on the point that banks do not lend their deposits. You can't fool him.[29]

To obtain the full significance of the approach by Mr. Docker it is necessary to quote at length. After quoting from various statements by Douglas he includes as vital evidence to "the farrago of nonsense" which he attaches to the writings of Douglas,[30] the following:

> (c) *When bankers secure repayments of loans they get them for nothing*. (This relates to a statement by a Mr. Rhys in a pamphlet *Real Wealth and Financial Poverty* (pp. 32-33) which concluded with, "On the other hand, if the overdraft had not been paid, the banker could not have lost anything; and had the banker claimed the house as repayment of the loan, he would have had it for nothing."

Mr. Docker uses this as a basis for his subsequent argument. [Referring to Douglas in – Ed.] *The*

Monopoly of Credit – pp. 44-5:

> But the fact is quite easy to ascertain that the *individual national has ultimately only one creditor, who, apart from interest doubles every loan made by him*. The great spending departments, such as the War Office, the Admiralty, the Office of Works, and others, obtain the money with which to make their monthly payments by means of drafts upon what is called the "Ways and Means Account," which is in fact merely a governmental overdraft kept with the Bank of England. *The Bank of England treats this overdraft of the government as cash,* which, since it rests upon the credit of the country, it is clearly entitled to do. The sums received in taxation go to the reduction of the government debit on the Ways and Means Account, so that we have the position that the money which the government spends is created by the Bank of England, is loaned to the government and is repaid by taxation of wages and salaries which were originally derived from this and other bank loans, which in turn, have to be repaid.

"This [Docker claims – Ed.] is a very veiled, but extremely definite, way of saying that the banks, apart from interest, secure double reimbursement of every loan made by them."

Quite clearly, Mr. Docker is confused between two issues of credit – one by the Bank of England and the other by banks in their normal operations in providing overdrafts and loans, which may be drawn upon to pay taxation. Mr. Docker continues [quoting from – Ed.] *Warning Democracy,* p. 104:

> But whatever views one may have about systems of administration, the essential point to recognise in regard to finance is the question of the beneficial ownership (Docker conveniently removes the emphasis italics of Douglas on *beneficial ownership)* of public credit, whether public credit be administered under a decentralised or private system of administration, or by a public authority.

> To put this matter in more concrete form, the question at issue, fundamentally, is whether, when a banker creates and issues a loan he should be repaid (which assumes that the loan belongs to him) or *whether he should not be repaid (which assumes that credit* is *a public asset).* (Mr. Docker added Italics for his particular emphasis). That is the simple and fundamental issue of this controversy, and upon the answer, which is given to it, in my opinion, the present civilization stands or falls. But although the fundamental issue can be thus simply stated, the practical methods of carrying out changes based upon it are not so simple and obvious.'

Mr. Docker says:

> It will be noted that Douglas does not in this statement actually say to which of those two schools of thought he himself owes allegiance. As he explained to the MacMillan Committee on Finance and Industry (Question 4472), he always makes his wording very careful, and in this quotation we find him very careful indeed. Still we think we are justified in inferring from the context that Douglas is suggesting here that when a banker creates and issues a loan he is *not* entitled to repayment.

Again Mr. Docker has missed completely the point. The question is on the beneficial ownership of public credit. The assumption that Douglas is simply saying that if a bank makes a loan it should not be repaid is sheer nonsense.

The other point relating to Question 4472 is completely misleading. What was Question 4472, to what did it refer and what was the answer? Let us look at it.

To obtain a correct understanding we must look at the preceding question, which does not relate in any way to the matter of credit creation, loans, banking, or repayments to banks.

"Question 4471. The subject being discussed was the A + B Theorem. Mr. Keynes asked. 'The cost of production to the manufacturer is A plus B?' Answer. Yes.

"Question 4472. Where else does it go? Answer. I felt sure that this would arise, because it generally does arise. May I put it this way? The wording of the statement is very careful. I always make the wording careful. I say, '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 which is not comprised in the description grouped under A'. I have not said it must be paid.

Mr. Docker should have held his head in shame. More importantly, those people who like to refer to his work as one that has "discredited" Social Credit should hold their head in shame. They are deliberately perpetrating a falsehood, and that is being kind to them.

> ". . . it will be our purpose to show that all loans (including discounting operations and overdrafts) made by a bank are advanced ***absolutely out of its cash*** ." (emph. added)

No comment is necessary on this incorrect and untrue statement. He does go on to admit that:

> our present banking system rests on the assumption that the whole of these demands (i.e. to draw on accounts) will not be made at the one time, and bankers have found that not only can they lend the amounts of fixed deposits, but also a large proportion of the amounts on current accounts, providing they retain enough cash in their tills to meet the normal withdrawals of their clients. The ratio of cash to deposits is the indicator by which a banker measures his capacity to lend . . . .

Any person, and he need not be a Social Crediter, might well ask, what is he talking about.

Mr. Docker attempts to ridicule Douglas by quoting from *Canada's Bankers and Canada's Credit*. This contained the evidence of Major C.H. Douglas before the Select Standing Committee on Banking and Commerce on Bill No 83, an Act respecting Banks and Banking and on the Resolution of Mr. Irvine MP, The Business, Function and Control of Financial Credit.[31]

> Douglas has something to say on the subject of which comes first, the loan or the deposit in *Canada's Bankers and Canada's Credit*, p. 35:
>
> > By Mr. Irvine: Question on page 43. – Arguing on that, that the farmer should not be allowed to have any more credit because "the money they lend (that is, the bankers) represents customer's deposits, which they must be ready at all times to pay on demand." Have you any remarks to make in that regard?
> >
> > A. – Yes. I think that that is yet another instance of the extraordinarily careful wording of the pamphlet. You see that that paragraph says – I have written it down here – "the money they lend represents customers' deposits." Represents customers' deposits. You will notice that it does not say that the banks lend customers' deposits. That is a very, very tricky and careful difference. It states carefully – loans and deposits are a reflection of it – but it does not state what is the fact, that the loan comes first, that it is the loan, which creates the deposit, not the deposit that enables them to make the loan.

Docker comments.

> It is possible that these bankers of Canada, when they issued their pamphlet, were not quite Mephistophelean in setting out this so 'very, very tricky and careful difference', as Douglas appears to think, but nevertheless they are evidently a 'very, very tricky and careful' lot.

We are confident, however, that Douglas proved himself a match for them.

> As a matter of fact, we have not the slightest hesitation in saying that it is the depositors' money that is lent by the Canadian and all other bankers.

It is self evident that Mr. Docker could not differentiate between the substance and the reflection, between the real thing and the reflection in the mirror. The fact is that deposits and that which "represents" deposits are entirely two different things. Douglas drew attention to this fact, which appears to have escaped the understanding of Mr. Docker. Sarcasm, as displayed by Mr. Docker, has no place in legitimate debate.

Mr. Docker bemoans the fact that he cannot understand Douglas's mathematical proof and dismisses it by saying:

> Douglas has described this mathematical proof as 'simple', but it nevertheless calls for knowledge of the differential calculus. The method thus adopted by Douglas may deceive a social credit disciple, but personally we must confess to a pronounced feeling of annoyance at thus having our knowledge of higher mathematics taken for granted. Assuming the facts to be stated, this proof may be mathematically correct, but most emphatically we protest against the application of methods that come within the scope of engineering or other more static sciences, to a subject of so dynamic a character as banking and economics.

Engineering a static science? Banking and Economics, dynamic in character? Engineering is practical whereas Banking and Economics as one can see over the years change with the flavour of the times. It would be a good test to see Bankers and Economists held responsible for their decisions that create havoc and misery, in the same way that an engineer would be held responsible for a bad design of a bridge that collapsed and affected as many people as Bankers and Economists do.

Mr. Docker's book of 244 pages has endless examples of his total disregard for the truth, his incapacity to understand Douglas but more importantly his continuing use of the old material fallacy of *Argumentum ad Hominem* (attacking the man and not the argument). To continue selecting items for criticism would be an endless bore to the reader, but if there is anyone who may require further proof of this discredited Accountant, then read his book together with material he quotes from and compare.

CHAPTER VI

In 1932, W. K. McConnell, M.A., wrote a pamphlet entitled *The Douglas Credit Scheme*[32] In the foreword G. V. Portus states: "In the early, post-war years, Major Douglas first published his theory in *The New Age*. It was widely discussed for a time; then it suffered somewhat of an eclipse. With the onset of the depression it was revived as a panacea for the world's troubles."

Mr. Portus claims credit for the pamphlet explaining that after he had heard a lecture to a Tutorial Class on the Douglas Credit Scheme he had suggested that it should receive wider publicity because the "exposition and criticism seemed to me to be so admirably clear."[33]

Chapter I — **The Fundamentals of Douglas Credit - The Douglas Starting Point**, commences:

> No industry pays out sufficient purchasing-power to buy all the goods it produces. If no industry can buy its own product, how is it possible for the community as a whole to buy all the goods, and services offered for sale?
>
> **The Douglas Argument.**
>
> 1. All the costs of any industry go to make up the price of its product.
>
> 2. The only purchasing-power distributed by any industry is the wages, salaries and dividends issued directly by that industry.

One need go no further than this statement to argue that Mr. McConnell either did not know what he was talking about, did not understand or deliberately set out to misinform. Douglas never said anything remotely like what has been claimed. It is another case of not quoting exactly what Douglas said, setting up a "straw argument" and then destroying or "discrediting" the false statement. Why in heaven's name do these so-called experts refuse to quote correctly?

Having made a false claim he states audaciously in his concluding remarks in Chapter I; “While brevity has been observed, the essentials have not been missed. Moreover, it consists almost wholly of extracts from the writings of Douglas and his colleagues”.

Chapter II – **The Fallacy of the A Plus B Theorem** can be dealt with in greater brevity than that of Mr. McConnell. He says:

> It is the purpose of this chapter to establish:
>
> 1. That the Douglas assertion, that the so-called B Payments do not, and cannot, constitute purchasing power for current production is not true.
>
> 2. That the assertion that there is, and must always be, a shortage of purchasing-power for the products of industry, is not true.

His first point can be dealt with by stating categorically that what he says that Douglas said is not true. Read the A + B Theorem again and again and it will be evident to any clear headed, honest thinking person, that Douglas never made any such assertion. It is a complete fabrication based either upon his claim to academic standing or a complete inability to read and understand what exactly was said.

Mr. McConnell introduces an extraneous factor, the selling on credit. He provides what can only be described as a specious argument by saying that selling on credit means that “the money being distributed to wage-earners in an industry flows out faster, and even before, the money paid to the producer of the raw materials used. In this very statement he has shown his shallow thinking in not recognising that irrespective of whether money was paid or the goods were supplied on credit, a cost was incurred. This cost can only be met in the end by payment in money as purchasing power. This in turn is dependent upon the flows in and out of the banking system and on a number of other factors that may affect the money supply. In addition he has completely overlooked, as did many others, a time factor.

Mr. McConnell glibly says: “If the Douglas analysis were correct, all years would be years of depression. Indeed, the whole system would long ago have come to a standstill”. Exactly the same remark was made (copied?) by another economist years later and to whom we shall refer at a later stage. The fact is that it is a clear indication that he has not understood the A + B Theorem because the answer is contained in the last sentence of that Theorem. Mr. McConnell has completely overlooked or disregarded the banking system in the operation of the financial system. Mr. McConnell is entirely confused and displays this when he says; “The arguments used above are applicable with equal force to other factors which appear under the heading of Douglas’s “B” Payments. Money expended on power finds its way into circulation[34] through the wages of electricians and linesmen, the salaries of managers, and the dividends of power-supply concerns”.

What Douglas did say in explaining the “B” Payments is contained in his book *The Monopoly of Credit,* pp. 32-33 in the 1931 edition and p. 38 in later editions.

Chapter III deals with **Douglas and Velocity**. His argument on the velocity of money is so unreal that it may even be regarded as a childish excursion into fantasy land. He commented that, “The economic conception of the velocity of money never seems to have entered Douglas’s mind”. He quotes Douglas by saying; “Douglas himself writes: ‘Where any payments in money appear twice or more in any series of production, then the ultimate price of the product is increased by that amount multiplied by the number of times of its appearance, *without any equivalent increase of purchasing-power*.’ Douglas fails to see that every time the money ‘appears’ it is purchasing-power”.

McConnell conveniently disregards the context in which that statement was made. It was in dealing with (a) savings, *i.e.,* abstention from buying, (b) and investment of savings in new works, which create a new cost without fresh purchasing power.

The mathematical proof of what Douglas said is quite straightforward. The first point to deal with is Mr. McConnell's statement "that every time the money appears it is purchasing power". Purchasing power is a relationship between money available and prices that have to be met. The purchasing power of money is dependent upon both money to spend and the price of an article. Money may pass from one person to another and as a result the purchasing power of that money passes also although it may have altered in the process. Money may also pass from one person to another but the action of it "appearing" does not make it greater or create more purchasing power. If I repay a debt to a person all that has happened is a transferring of that money with its purchasing power. I cannot purchase anything with it and the repayment of the debt is not a purchase, because that presumably has occurred with the money I borrowed. If I borrowed from a bank and spent the money it obviously had some purchasing-power. When I repaid the bank that money goes out of existence with its equivalent purchasing-power.

The second point is the confusion in Mr. McConnell's thinking that relates to the "velocity of circulation". He takes to task someone whose name he does not mention and says:

> Here is an extract from the writings of a leading Douglas theorist: 'Purchasing-power only functions once as purchasing-power, because when money is redeemed in ultimate goods it is spent, exhausted, and its virtue as purchasing-power is gone'. That is to say, if a motorist purchases a pint of oil for a shilling, that shilling ceases to be purchasing-power, notwithstanding the fact that the garage man goes next door and purchases tobacco with it!

A more childish and ludicrous explanation cannot be imagined. If the garage man spent all his takings in the same manner he would not long be in business. The plain fact is, that assuming he was making a profit, the most the garage man would be able to spend as purchasing-power to him would be the profit, *i.e.*, his income on the transaction, the remainder would be required to pay for the oil and other overhead costs.

He says, "Douglas fails to see that every time the money 'appears' it is purchasing-power. His trouble is that he fails to distinguish 'money' from 'income'. Such a statement is incredulous after what he has just said in relation to the garage man. This is obviously the same thinking as indicated by economists who regard expenditure and income as the same thing from opposite viewpoints. He then goes on to say:

> 'Money' consists of the coins and notes in circulation plus the demand deposits at banks. The 'effectiveness' of money is a resultant, not of its volume only, but of its volume multiplied by its velocity. It is this velocity of circulation that the Douglas thinkers seem to be unable to comprehend; or, rather, it never seems to have occurred to them.

In the practical business world the Velocity of Circulation has no validity. Any business man acting in accordance with the ideas stated by Mr. McConnell, would not be in business very long but would be in philanthropy. He would be living on his capital, and heading for the Bankruptcy Court. If Mr. McConnell had done his homework he would have come across Douglas's views on the velocity of circulation. This has been illustrated in much of his writing but one simple example is contained in a letter to the editor of the *New English Weekly* in reply to a correspondent in which Douglas says:

> Your correspondent, Mr. J. A. Franklin, falls into a very common error. The same sum of money handled by consumers will transfer any number of different kinds of goods in the manner described by him, but it will only cancel costs to the amount of its face value. If the butcher takes my £1 note in return for meat, and pays it to the baker, he is taking money out of the accountancy cycle of meat production for his own purposes, and if his capital is only £1, he will then go out of business. In other words, there is a vital difference between paying £1 to the baker and paying it to the farmer in liquidation of a debt incurred for cattle.

> The farmer probably borrowed it from the bank, and when he repays it the accountancy of production is complete and can be repeated.
>
> A price value is created by the costing process, and only disappears by repayment or writing off. Purchasing-power is in no case created by the circulation of money, although price values are so created. Purchasing-power is for all practical purposes, to paraphrase Mr. McKenna,[35] 'created by a bank loan, or a purchase by a bank of existing price values, and it is destroyed by the repayment of a loan or the sale of existing price values.'[36]

Obviously Mr. McConnell is not arguing against Douglas, but Mr. McKenna, the Chairman of the Midland Bank, who made the comment (endnote 31). Mr. McConnell criticises Douglas saying:

> Douglas writes of money on its way to the bank as being 'on its way to extinction'. A bank is not a cemetery for credit; it is a reservoir that is continually receiving and distributing it. The sum total of credit is not, as a general rule, affected by the reduction or the extinction of an overdraft. Normally, as fast as one man liquidates his loan, the bank issues credit to someone else.

Mr. McConnell has fabricated a fantasy to substantiate his criticism. The fact is that bank lending is based on factors other than that described by Mr. McConnell. It would be interesting if he were able to provide information on how his understanding of bank lending would operate in a credit squeeze situation.

Mr. McConnell's pamphlet of some 24 pages claims to have exposed the fallacies of Douglas whilst at the same time explaining, "He (Douglas) does not appreciate the complexities of the situation, and the course of action proposed by him could end only in disaster".

Mr. McConnell is one of those "experts" that are referred to as being one who has "discredited" Social Credit.

Although no substantiating evidence is offered by these detractors they still make reference in their bibliographies to him. It is therefore fitting and proper that we offer the information, always ignored by these critics, on the answers given at that time that indicate his lack of credibility.

One such criticism of W. K. McConnell was published in *The New Economics*.[37] The title of the article was *A Bankers' Gift*. It is reproduced here verbatim.

> Mr. W. K. McConnell, M.A., Tutorial Class Lecturer in Economics, University of Sydney, has written a 24 pp. pamphlet entitled *The Douglas Credit Scheme: A Simple Explanation and Criticism*. It is priced at 1/-, but there is no need to pay that sum to get a copy. The leading trading bank in Australia, if not others as well, is seeing to its distribution throughout the length and breadth of the country gratis, which is more than its true value. One of our friends went into the Melbourne office of this bank and asked for one copy, and was given four!
>
> Like most of the critics of Social Credit, Mr. McConnell attempts a criticism of a subject without knowing the subject. He mentions none of Major Douglas's books, and we venture the opinion that he has never read them, but contented himself with extracts from various sources. He refers to A. E. Powell, author of the *Deadlock in Finance,* and speaks of "Douglas theorists" without mentioning their names or works, and in the main bases his criticism upon the exposition of those writers.
>
> **What an Investigator Should Do.**
>
> The proper thing for an investigator into any subject is to consider the matter entirely from the exposition as set down by the originator of the thesis. When the Macmillan Inquiry sought to understand the Douglas Analysis and Proposals, they did not call upon ordinary supporters of the doctrine for an explanation, but invited Major Douglas himself. Similarly, anyone who wishes to examine and pass judgement on the Douglas thesis should, if he would do so in the spirit of impartiality and truth, go straight to Douglas's own works, and base his conclusions on those works, and those alone.

Major Douglas must be tried on his own exposition, not on those of his commentators.

Obviously Mr. McConnell has not done this, and that opinion is confirmed by his manifest ignorance of what Douglas does say. A critic who can write that Douglas ignores the fact that "production is a continuous process" has quite clearly never read *Credit Power and Democracy,*[38] in which the dynamic state of industry is emphasised, and in which it is stated:

> . . . it is the rate of flow, which is vital. The whole economic system is in ceaseless motion – purchasing power is constantly flowing back from individuals into the credit system whence it comes, and if the outflow is less than the inflow someone has to lose purchasing power.

There is a distinct suggestion of irresponsibility in an individual who can say that, "Douglas delights in reiterating everybody would be happy", when Major Douglas, we feel safe in stating, nowhere in his writings uses the expression.

Confusion and Misunderstanding.

We could fill considerable space if we had it to waste in dealing with the confusion, misunderstanding and distortion evident in this so-called criticism. "According to Douglas", writes Mr. McConnell, "money paid out in respect of raw materials was received by the producer of those raw materials, and spent by him, long before the finished article came on to the market." Major Douglas, of course, does not argue that way at all. What he does say is that the money paid away to the community as wages and salaries in respect of the production of raw materials and capital equipment is spent by the recipients before the finished production carrying these costs comes on the market. And that when the **producer** of the capital goods receives payment for them from the manufacturer he uses the money – with the exception of that which accrues to him as "profit" – to repay the bank loan incurred in the production of the goods.

The money or credit is then cancelled, and cannot, therefore, be regarded as effective purchasing power for the goods in which it is charged.

Similar carelessness and confusion in interpreting Douglas is apparent in [the assertion that – Ed.] the 'time-lag between payment for raw materials and placing of the finished article on the market is by no means great'. Whereas Major Douglas's reference to a 'time-lag' is in relation to the **production of** (not 'payment for') capital goods and raw materials, compared to the appearance of the ultimate product to which they contribute in the making.

Criticism of A + B Theorem

The confusion of thought and palpable lack of understanding of the subject is characteristic of the whole pamphlet. First, its author argues that the "B" payments must be considered as effective purchasing power on the assumption that the producer receives the money at the same time as the "A" payments are issuing from the industry making the consumable product, and that he can use the money to buy the goods. He overlooks the patent absurdity involved in this argument, for to be sound, it would mean either (a) that the producer of raw materials and his employees drew no incomes during the production of their product, which may have extended over a period of months; or (b) that they draw **two** incomes in respect of the production, one when it is being produced and one when it is being sold; and in this event the spending of the second income implies also that it is not incumbent upon producers to repay bank loans incurred in production or to restore their capital.

Then, as if realising, though unconsciously perhaps, the untenability of that position, Mr. McConnell attempts another explanation. He postulates that the community will be receiving income in the production of a further lot of raw materials, simultaneously with the issue of the ultimate product in which his previous production is used up.

But our critic does not see the fatal implication of this contention, which is that it is necessary for a community to produce two lots of goods in order to, buy one lot. That is to say, his argument implies that the incomes received this week are not available to buy the product of this week, but that these products must be bought by incomes received **next** week, which means, in effect, that the community must, according to his reasoning, earn two weeks' income before it can purchase one week's product. Stupid as it appears, that is a fact today. "The wages, salaries and dividends," to quote Major Douglas, "distributed during a given period do not, and cannot, buy the production of that period; that production can only be bought, *i.e.*, distributed, under present condition by a draft, and an increasing draft, on the purchasing power distributed in respect of future production, and this latter is mainly and increasingly derived from financial credit created by the banks." So that in order to get money to buy the goods it has already produced a community must go on making goods whether they are needed or not, and getting deeper and deeper in debt to the banks. And when capital expansion as the main channel of the draft of new purchasing power ceases the community is forced to starve, not because there is a dearth of goods, but because they have no income to buy them.

Another Aspect

Now implicit in the argument we have just considered is, granting continuous production, an assumption that in the production of such quantity of intermediate products, including plant, machinery, buildings and so forth, as is physically necessary to maintain a given quantity of consumable products, adequate purchasing power will be distributed to buy those products. But this is an illusion. It is claimed that the "B" payments of, say, the baker for flour are being offset exactly by, say, the "A" payments of the wheat grower and flour miller, in the production of further wheat and flour, thus making up the apparent disparity between purchasing power distributed by the baker and the price of bread.

It is supposed, for example (and for the sake of simplicity let us keep it to two industries). That if the "B" payments of the baker are, say, £100 for flour, then £100 is being distributed simultaneously as wages and salaries by the flour miller. Now the fallacy of this argument should be obvious on this ground. The flour

> miller does not distribute £100 as wages and salaries, including his own wages, in the production of flour costing £100, but something less.
>
> If he did distribute £100 as wages, *etc*., then of necessity his costs and price of flour produced would be more than £100. And the extent of the "more" would be the sum of his capital costs – his "B" charges. But on the assumption that the £100 is the extent of production considered, the conclusion must be that the sum of wages, *etc*., distributed would not be £100. This fundamental fact remains even if we embrace every industry contributing to the manufacture of bread. For no industry does distribute as much in wages and salaries – consumer incomes – as the price of its product.
>
> That is the basic premise of the A + B theorem, and Mr. McConnell does not dispute it. Consequently, his claim that in continuous operation each industry will distribute purchasing power equal to the sum of costs it sends forward into the price of the ultimate product is invalidated.
>
> The reason for this disparity between the flow of incomes and the flow of costs is that in the nature of things every industry is forced to operate on raw materials and plant produced in a previous cycle of production. "B" charges are costs on account of previous production; they represent wages and salaries distributed in the past; "A" payments, on the other hand, represent wages distributed in the present; but both past and present costs flow into prices. Logically, then, and arising from the inevitability of this relation of costs – *i.e*., that whenever an "A" cost is incurred it is accompanied by a "B" cost – the generation or accounting of costs in any period must be greater than the distribution of incomes in the same period.

This is the main portion of the article and the remainder deals with aspects already covered. However there is further correspondence provided by a reader and it is interesting to note that Mr. McConnell was aware of certain aspects of information which he requested from a reader and with which he would have been familiar.

His article written subsequent to this correspondence shows that Mr. McConnell was not writing from the standpoint of an honest critical investigation but one of premeditated planning to attempt to discredit Social Credit.

His apparent inability to understand the A + B Theorem despite the information supplied to him in addition to his claim to have read Douglas's first two books reveals the shallowness of his work.

Mr. McConnell's pamphlet appeared in 1932 and presumably after November of that year because of the date of the preface by G. V. Portus as November, 1932. It is possible that it was written prior to that date but not prior to the date of his correspondence wherein he requested certain information as revealed in the following letters.

The content of the following correspondence is not the important factor so much as what may have been the reason for the enquiry and the subsequent publication of a pamphlet based on his lectures that completely and utterly discountenanced information supplied to him.

Surely it is reasonable to assume, that if he wished to refute any statement he would have either quoted from Douglas's books that he claimed to have read, but does not mention, or from the correspondence in answer to his queries, or both. He has done neither, and thus leaves himself open to a charge of deliberate premeditated calumny.

Mr. McConnell's letter to C. B. DaCosta: [39]

19 Morden St., North Sydney, N.S.W. 14/5/32

C. B. DaCosta, Esq.,
Douglas Credit association,
Victory Chambers,
302 Queen Street, Brisbane.

Dear Sir,

I read Douglas's first two books soon after they were published. (NB. *1919120* Ed.) I was interested, but doubted the practical application of his principles. Lately (now 1932 ED.) I have been paying some attention to his theory for two reasons: (I) I am delivering a series of extension lectures for the University of Sydney on finance, and think Douglas worth at least a couple of lectures; (2) I am convinced that the very root of our economic ills is a bad financial system, and Douglas, putting forward a constructive alternative, demands thorough investigation. Among others I have read your "Need We Repudiate?" It has impressed me. On a first reading a number of questions have formed themselves in my mind. I am enumerating them on a separate sheet. Would it be too much to ask you to let me have short answers to them? If possible, I should like them in time to deliver a lecture on Douglas on Friday, May 27. You might perhaps suggest further reading to me.

Yours faithfully
W. K. McConnell., M.A.

Mr. McConnell's Questions:

1. How would "financial cost" be arrived at?

2. I understand "Just Price" to be the lower the wider the margin between amount produced and amount consumed, since "just price" is arrived at by multiplying the "financial cost" by the fraction, quantity consumed over quantity produced. Am I right?

3. I understand that the difference between financial cost and the just price will always be made up to the producer by the issue of consumer credit to him. Am I right?

4. What, then, would be the check on continuous overproduction that is, more produced than the community really wants at any price? Is it that the producer would not be eligible for an issue of consumer credit until he had actually become a seller? Or is it that all producers would be eligible for consumer credits, but those who did not sell would still show losses, since they would not share in the just price, which would only be paid by consumers on actual purchases?

5. Since all share in the National Dividend –

(a) What would be the incentive to work and business enterprise?
Do you think they would be adequate?

(b) What would be the incentive to inventive genius, research, etc.?

6. How could a fall in the "just price" cause the producer to relax (see page 28 of your thesis) if the difference between financial cost and just price was always made up to him by the issue of purchasing power in the shape of consumer credit?

7. What would be done with surplus products (pages 26-27 seem to envisage the possibility)?

8. Suppose Brown (on page 31) threw his seed wheat to the fowls, or used the fertiliser wastefully or not at all, would the credit issued still be cancelled? In other words, what would be the incentives to honesty and efficiency?

9. In the case of the failure of Brown's crop, and the cancellation of his credit (page 31), who would own the implements (page 30)?

10. What would be the functions (if any) of private banks in a Douglas community? What would be the incentive for them to carry on?"

Mr. DaCosta replied to Mr. McConnell thanking him for his inquiry, and recommended books for study. Below are his replies to Mr. McConnell's questions:

1. Financial Cost is the sum of payments made in the process of production and distribution, including profit. Financial cost of consumer goods is their cost, plus retailers' selling charges and profits.

2. Not quite. Money or financial credit is based upon potential capacity to produce and deliver goods and services, and the Just Price represents the portion of that capacity drawn upon or used. Therefore total production not only includes the cost of production, but the credit value of that production, *e.g.* every new machine or invention which increases the capacity to produce increases total production not only by the cost of such machine, but by the value of its output or capacity as well. You will see that every immigrant also increases the nation's capacity to produce. Consumption likewise includes the depreciation of productive capacity due to discarding of old machines and processes.

A good way to view the Just Price is as a discount, a fixed discount, applied to the prices of all consumer commodities this discount representing the unused or undrawn-upon productive capacity existing from time to time, and the net price after the discount has been applied would be the Just Price of the commodity.

The true cost of production during any given period of time is the money cost of total general consumption during the same period. Therefore the true cost of any article is the same fraction of its financial cost that total consumption is of total production. The Just Price is only applied to "ultimate" or consumed goods.

3. The retailer upon sale of goods at the Just Price will be reimbursed his loss, *i.e.* the amount of the discount mentioned above.

Another method suggested by Douglas is that consumers shall pay full price for goods and receive with goods a certificate or voucher, which they shall bank, as they would a cheque, when their accounts will be credited with the amount of the discount claimable.

4. There are two channels of credit: (a) That issued to industry to finance production, and which is really only a series of book entries, as shown in "Summary of Accounts" on page 32 and (b) consumer credit, which is an issue of P.P. (purchasing power) either indirectly by reducing retail prices or directly as mentioned above. Therefore the producer would not receive any profit on goods unsold, and could not get further credit for production.

5. (a) Those employed would receive their wage or salary in addition to the National Dividend, so the financial incentive to work is the whole wage. Under the "dole" system the enterprising man who endeavours to supplement the "dole" by casual employment disqualifies himself for the receipt of the "dole", and possibly renders himself liable to prosecution. There is another and greater incentive in that every employee is a beneficial owner in all industry; he knows that the more efficient he is, and the greater the output, the greater the benefit to himself and his fellow-worker through the National Dividend; it raises him to the status of a partner.

(b) The same as above, for every invention or improved process will directly benefit every member of the community including the inventor, and not only a few individuals.

6. This is answered in No. 4. A fall in the Just Price is an indication that consumption is reaching satiation point, and so sales would slacken and profits, being on turnover, would decrease.

7. Accumulated stocks of non-perishable goods are "capacity to deliver", and are taken into account in general production, whereas goods unsaleable for any purpose, and destroyed or perished goods or waste, would be accounted into "consumption", and thus paid for by a minute rise in the Just Price.

8. Remember our goal is consumption, not production, which is but a means to that end. The credit issued has fulfilled its function; it has caused the consumption of seed wheat and fertiliser, or, more correctly, it has enabled the people who produced those things to consume goods and services, and the credit will return to the money system by those channels. If Brown does not produce any wheat then consumption has taken place without any resultant production, and so the Just Price again will automatically withdraw so much P. P (purchasing power) or credit by a minute rise in price, but which will be more than likely offset by increased production elsewhere. Brown may not be successful in obtaining another lot of credit. I always think man is by nature honest, and it is the incentives to dishonesty we must remove. Remember, credit is costless, except for bookkeepers' wages, etc.

9. Brown would remain administrative owner of the implements. Their only use is to produce for the community, so the community is the beneficial owner.

10. Private banks would act as agents for Social Credit, administering a policy laid down by consumers, and for which they would receive a commission. They would also keep customers' bank accounts, which would be greatly increased in number, and for which they would make a charge. They would also become legitimate moneylenders, lending funds placed with them by customers, and for which interest would be charged. People would require loans for private purposes, such as building houses, buying motor cars *etc.*, and also for some enterprises. Social Credit would be available for the production of all the "means of life", public services and utilities, etc., but there will be many avenues of speculation for which Social Credit will not be available. Banks should pay dividends to their shareholders, because the greater part of their profits to-day are placed to reserves, which would not be required. If their dividends were only half what they are now, if prices were half, the return would be just as good.

The article and correspondence just exhibited is for the purpose of demonstrating that Mr. McConnell was supplied information and answered contrary to the impression given by critics that here was a piece of work that had “discredited” Social Credit. The answers by Mr. DaCosta were, as requested, kept short. Like the people who want Social Credit explained in a “nutshell”, it is disregarded when they wish to criticise without mentioning that it is just that, a short answer. It is interesting however that Mr. McConnell did not mention Mr. DaCosta or his answers in his pamphlet any more than he referred to the books of Douglas that he claimed to have read.

We now leave Mr. McConnell rest in peace and we sincerely trust that those who wish to use his work in the future to back their false claims will do likewise.

CHAPTER VII

In 1933 Mr. R. G. Hawtrey who was Assistant Secretary to the Treasury engaged with C. H. Douglas in a debate that became known as The Birmingham Debate. In a publication in 1937 Mr. Hawtrey devoted a whole Chapter of his book *Capital and Employment* to criticising Douglas. In 1952 a revision of this publication saw him water down his criticism. In the space of some nineteen years Mr. Hawtrey obviously realised that events had proved Douglas correct in his Analysis. This will be dealt with later but for now The Birmingham Debate is offered to readers in full without any additions or further comment. The debate took place in the Central Hall Birmingham, on Wednesday, March 22, 1933, and it is in that contemporary context that readers must ascertain the differences in the stated arguments.[40]

MR. HAWTREY'S STATEMENT

I have two preliminary remarks to make. The first is that it is a great pleasure to me to have this opportunity of meeting the Birmingham Social Credit Group, and particularly also of meeting Major Douglas personally. The second is that, as I am a Government official, I ought to explain that what I have to say this evening represents my own personal views, and is not to be associated in any way with my official position.

Before setting out to criticise the doctrines of Major Douglas, I should like to say that on certain matters I am in entire accord with him. Among these I would especially mention his view that the demand for commodities arises from incomes and that incomes arise out of production. Further, I agree with him that banks create money, and that trade depression arises from faults of the banking system in the discharge of that vital function.

But I do not want, on the present occasion, to dwell on these points of agreement. Rather I want to proceed without delay to examine the questions in regard to which he and I part company.

A + B and All That

The foundation of Major Douglas's Theory of social credit is his view that in the economic system, as it at present works, there is an inherent shortage of demand; that the total of incomes *necessarily* falls short of the total of goods to be sold, valued at remunerative prices.

That is so, he would say, because, in order to be remunerative, prices have to include certain other items in addition to the incomes generated. Since demand emanates only from incomes, these other items inevitably introduce a discrepancy. The excess of the value of goods over demand has to be distributed by some other form of purchasing power, that is to say, by credit.

The incomes or "payments made to individuals" comprised in costs, include wages, salaries, and dividends. The other items, or "payments made to other organisations" include raw materials, repayment of bank loans and other non-personal costs.

With raw materials he groups intermediate products under the general heading semi-manufactures. The products of one manufacturer may be the materials of another. A tanner buys hides and sells leather; a boot maker buys leather and sells boots, and a retailer buys boots and sells them to consumers. Hides and leather alike are comprised under the heading "semi-manufactures." The hides are paid for by the tanner, and their price is included in the price paid to him for the leather. The price of the leather, which thus includes the value of the hides, is then included in the price paid by the retailer to the manufacturer for the boots.

"Where any payment in money appears twice or more in series production," Major Douglas explains, "then the ultimate price of the product is increased by that amount multiplied by the number of times of its appearance, without any equivalent increase of purchasing power." – *Monopoly of Credit,* P. 30.

Here I find myself differing from Major Douglas.

Apparently he would say that the price of boots includes the price of the leather twice, and the price of the hide three times. I should say, on the contrary that it includes each *only once*. [On the contrary. This is a complete misunderstanding and distortion – Ed.]

The retailer receives the retail value of the boots from his customers and pays the wholesale value to the manufacturer, retaining the difference to cover the wages and salaries of his employees, his rent, and his own profit. The manufacturer receives the wholesale value of the boots from the retailer, and pays the value of the leather to the tanner, retaining the difference for profit, wages, and salaries. The tanner similarly retains the difference between the value of the leather and that of the hides and other materials he uses.

Thus the whole of the difference between the original materials bought by the tanner and the boots sold by the retailer is accounted for by disbursements of wages, salaries, rent interest, and profits, that is to say, payments to individuals by way of incomes. (He does not explain how the retailer pays his wages, salaries, rent, and interest, and obtains his profit, before he sells the boots).

But the hides in tum are bought from farmers, and the sums received for them, form part of the incomes of the farmers, their workmen, and their landlords. There will be some outgoings for feeding stuffs, *etc*., but these will be paid to yet other producers. In fact, *all* the payments for semi-manufactures or materials are ultimately devoted towards providing the incomes of those engaged in producing or handling them.

Now it may be objected that this analysis would be perfectly valid if production did not take time, but that by the time the boots appear on the market the incomes derived by the farmers from the hides; by the tanners from the leather and by the manufacturers from the boots are ancient history.

These people do not wait for the retail sales, but are paid at the moment of sale with money created by the banks, [Mr. Hawtrey now admits to the comment made above – Ed.] and then when the final sale to the consumers takes place, the money advanced by the banks has to be paid off. That part of the proceeds of sale is simply destroyed. For just as a bank advance creates money, so the repayment of an advance extinguishes money.

If we suppose the production and sale of the boots, in all the successive stages, to form an isolated operation, then at the beginning there will be an excess of purchasing power and no goods to buy, and at the end an excess of goods and a shortage of purchasing power. Castaways thrown on an uninhabited island, with no salvage to help them, would be faced with the same kind of maladjustment. At first they would have to subsist on the products of unassisted nature, and would receive no other reward for their labour.

If they devoted their efforts to making the island productive, the time would come at which their preparatory work would bear fruit, and thereafter they would receive the improved and increased output thereby made possible. If at last they were rescued, and left the island, the products then in course of production would find no buyers, and that part of the fruit of their early efforts and privations would be wasted.

But the economic activity of a civilised community is *continuous*. (It is this continuity allowed only by bank lending with interest that increases debt. It also validates Douglas' conclusion in his A + B Theorem – Ed.). The accumulation of the essential capital equipment goes back to the immemorial past, and there is no question of winding it up and liquidating it.

At any moment all the various stages of production and all the various forms of economic activity are in progress simultaneously.

In order that the goods produced in any interval of time may be sold, what is needed is that the incomes accruing *in that same interval of time* should be sufficient to buy the goods at remunerative prices. Incomes arise out of production; they are paid to people for services rendered by themselves or their property towards the productive process, and these services are the source of the value of the goods produced. Now a part of the value of the goods produced during the interval will be derived from incomes that accrued before the beginning of the interval. But on the other hand a part of the value representing the incomes accruing during the interval is embodied in goods still unsold or unfinished at the end of the interval. The goods in process or in stock at any time constitute the working capital of the community, and, if there is no change in this working capital, there need be no inequality between the incomes accruing during the interval and the goods placed on sale.

So much for working capital. What of fixed capital? Industry starts at the beginning of the interval with a certain amount of fixed capital, plant, tools, etc., and the cost of the goods produced with the assistance of this equipment must contain a contribution towards its maintenance and depreciation.

Major Douglas has laid special stress on depreciation as a constituent of cost, which does not appear in the form of incomes. But here he is mistaken. Depreciation is the provision, which the prudent manufacturer makes out of his gross profit against the time when his plant will have to be replaced, either because it is worn out, or because greater efficiency can be secured by plant of an improved type. If we imagine him to accumulate this provision during an interval of time in the form of a cash balance, and if we suppose no replacements have actually to be carried out during the interval, there will be a shortage of demand. So much of the proceeds of sale will have failed to reappear in the form of income.

But if we view industry as a whole, we find once again that economic operations are *continuous*. In any interval of time there will always he some plant to be replaced in some concern, and the production of the new plant will generate incomes in just the same way as the production of new consumable goods.

Moreover, even if replacements do not exactly keep pace with the accumulation of money to pay for them, the money accumulated need not be in the form of idle cash. So much as is not required is likely to be invested either in the business themselves or in marketable securities. That applies equally to the provision that the prudent mine-owner makes against the exhaustion of the mine.

Here “replacement” is not, strictly speaking, possible at all. The minerals taken from the mine have gone forever. Indeed, in so far as the value of the minerals exceeds the cost of working, this may be regarded as a genuine case in which payments for materials are not applied to pay incomes. The mine-owner’s property is being depleted.

But he is not likely to hold such part of his receipts as represents capital in the form of idle cash. Like the manufacturer disposing of a surplus on his depreciation account, he will invest it.

And more generally we may say that when *anything* which counts as a capital asset in the hands of the seller is bought to be used in production, the seller is likely to invest the proceeds of sale. And though at one time he may withhold them or a part of them from investment, he may at another draw upon balances or borrow from a bank for investment. All money coming from such sources forms, along with savings out of income, the fund available through the investment market for capital outlay.

And that brings me to the question of new capital outlay, including, besides the establishment of new enterprises, any extensions or improvements which do more than replace the plant which is being discarded. Capital equipment enters into cost, in the form of maintenance, depreciation and interest, when it has been completed and is being used. To reckon it as an item of cost also when it is being constructed is to count it twice over.

Nevertheless, for Major Douglas's purposes it is necessary to consider how provision is originally made for it. In so far as capital outlay is met out of income, that is to say, by means of saving, the demand available for consumable commodities is diminished by the amount saved. But then the money spent on the construction of new capital, no less than that spent on the production of consumable commodities, generates incomes. There is no failure of equilibrium here. Incomes are devoted partly to consumption and partly to investment, and they are derived partly from the production of consumable goods and partly from the production of capital goods. There may be some dislocation through a *change* in the proportions spent respectively on consumption and investment, but that is a different thing from a shortage of incomes as a whole.

But capital outlay is not invariably financed by savings out of income. Major Douglas even goes so far as to say, "It is doubtful whether more than an insignificant proportion of financing is done in this way, the greater part coming from new credits supplied by banks and insurance companies in return for debentures." That insurance companies play a large part in investment is undoubtedly true. But life insurance is no more than a channel for saving, adapted to the requirements of those who are dependent on earned incomes. The premiums received are savings, which are invested by the insurance companies pending the maturity of the policies.

And I think Major Douglas has misconceived the function of banks. At any time, it is true, a considerable portion of the assets of the banks represent fixed capital. They hold long-term investments (mainly government securities) on their own account, they make advances, both to stock jobbers and to other customers, to enable them to buy and hold stocks and shares, they make advances to manufacturers and traders for improvements and extensions of plant, and they make advances to private customers to buy houses.

In all these ways they provide funds for purposes of investment. But their advances are for the most part repaid quickly. Even those made for improvements of plant or for buying houses are usually required to be repaid within two or three years. (Mr. Hawtrey was evidently in another dreamtime world, certainly not reality).

The actual amount of resources supplied by the banks for the purposes of investment over any interval of time is no more than the excess of new advances over repayments, and that excess is in general, small in comparison with the annual amount of savings.

But when Major Douglas refers to capital outlay financed by bank credit, I do not think he has in mind the use of a net increment of bank credit to supplement savings. His argument is rather that the manufacturer incurs capital outlay which has ultimately to be met out of profits, the bank advance being no more than a transitory expedient, and that the price of the product has to be raised to provide sufficient margin to cover the outlay, that is to say, to repay the bank advance. Even though new capital outlay is not strictly a part of the cost of production, (Mr. Hawtrey has conveniently overlooked depreciation at this point – Ed.) nevertheless the latest improvements in plant available to an industry may be so essential that every producer in the industry is compelled to install them. They are as necessary as ordinary replacements, and yet they may cost far more in capital outlay than the plant they are displacing. The situation is not unlike that of a trade in which the available stocks of the finished product are short, and the traders make good the shortage by charging a high price to the consumer. The high price, which is imposed, to slow down sales at the same time yields an extra profit to the traders and so supplies the resources to meet the costs of accumulating the additional stocks. The additional stocks are part of their capital, and the extra profit is part of their income, so that they may be regarded as providing capital by saving out of income. Yet this is, in a way, a fiction, for the need for the new capital has itself led to an increase of price and consequently of profit to pay for it.

In this way the cost of new capital may occasionally appear as an item in selling price. (Not *may* – it *does* – Ed.) But, even if it does, no deficiency of demand is caused. The production of the new capital itself, whether it be plant or stocks of commodities, generates incomes equal to its costs. (In another period of production – Ed.) Production, for the time being, exceeds consumption, and the difference is appropriated by the traders in virtue of their extra profit. That extra profit is a clear addition to the aggregate of incomes.

Incomes are the source of demand. But it cannot be assumed that the amount of demand in any interval of time must be equal to the aggregate of incomes. The expenditure of the individual is not exactly equal to his income; he may leave part of his receipts unspent in his cash balance, or may draw on his cash balance (or overdraw) for expenditure in excess of his receipts.

For the total expenditure out of all incomes, including expenditure on investment or the purchase of securities, I use the expression “consumers’ outlay”. When people, in their capacity as consumers, draw upon their balances, this is expenditure out of past income, *and when they overdraw I regard it as anticipation of future income*. (Emphasis added – Ed.) In either case I include it in consumers’ outlay. On the other hand, when advances or overdrafts are granted to a *trader* to meet his expenditure on buying or producing commodities, that is not an anticipation of expenditure *out of income,* and is not part of the consumers’ outlay.

I should explain that I use the term “trader” in a wide sense, to include anyone who incurs costs on producing or buying goods or services with a view to sale. A trader may be engaged on production or transport or on dealing in goods or securities, or on any other economic activity. His characteristic is that he *incurs costs,* and it follows that his income takes the form of *profit,* an excess of the proceeds of sale over costs.

The only forms of economic activity that are not in the hands of traders are those in which no costs are incurred, that is to say, those in which the producer renders a service direct to the consumer, in return for a wage, salary, or fee. The services rendered by a servant in return for her wages are an example. The whole of what she receives is income, and her income and her employer’ outlay on her services are equal and simultaneous. The trader, on the other hand, is an intermediary, receiving money from the sale of his product, and paying money to other traders and to those whom he employs or whose capital he uses. He also draws out the profit that constitutes his own income.

His receipts and disbursements are not necessarily equal to one another.

If we consider *all* the traders in the community as a single group, we find that the group receives the proceeds of goods, services, and securities sold to consumers, and pays the incomes of all those who participate, by their services or by the use of their property, in the work of production and other economic activity carried on by the traders. The profits which constitute the incomes of the traders are included on the side of the payments while the traders, when they spend these incomes, are reckoned among the consumers.

Payments by one trader to another all cancel out, and do not figure either in the receipts or in the payments *of the group* at all.

Foreign trade introduces a complication, but does not materially modify the general principle. Exports visible and invisible, like all other forms of economic activity, generate incomes. Some traders receive payments from abroad for exports, while others make payments abroad for imports, and the result is to provide goods, services, and securities to meet the demand corresponding to the incomes generated by the export business.

Now the payments made by the group of traders being in respect of services rendered towards production and other economic activities, will be increased or diminished according as the traders accelerate or retard production.

If they accelerate production, they must payout more in respect of the greater productive activity. There will result an excess of the traders' disbursements over their receipts, an excess, which may he described as a "release of cash". The cash-released goes to pay additional incomes and then reappears as additional demand. The additional demand evokes a still greater productive activity and a further release of cash.

When the traders retard production, there occurs an excess of their receipts over their disbursements, or an absorption of cash. There is a shrinkage of incomes, of demand, of sales, and then a still greater shrinkage of production.

In the case of a release of cash the expansion of demand cannot be met indefinitely by an increase of production.

As production approaches capacity, the effect will be felt more and more in a rise of prices. This is the familiar phenomenon of inflation.

In the contrary case of an absorption of cash the contraction of demand is felt partly in a reduction of prices, but, in so far as prices resist reduction, it is felt in a decline of output and consequent unemployment. This is deflation.

The release and absorption of cash play an important part in the regulation of credit. What is commonly called an expansion of credit is really a device for inducing a release of cash, while a contraction of credit is a device for inducing an absorption of cash. A release of cash may be effected either with money drawn from existing balances or with money lent by the banks. Similarly, an absorption of cash may mean either the accumulation of idle money or the repayment of bank advances. The majority of traders avoid holding idle balances, and borrow just so much from their bankers as their varying needs for working capital require from time to time.

These traders cannot increase their activity unless they can borrow. The bankers, by increasing their charges, and possibly refusing loans, can deter the traders from releasing cash and practically prevent an increase of activity. By reducing their charges and showing themselves willing to lend, they can induce an increase of activity. In the latter case, they may start a vicious circle of inflation involving a cumulative rise of prices; in the former a vicious circle of deflation involving a cumulative fall of prices and an evergrowing burden of unemployment.

An absorption of cash may be regarded as a step towards that liquidation of industry which was illustrated from the rescue of the castaways. It means that traders are seeking to sell more than they buy or produce. (Try selling two dozen eggs when you only have one dozen!) The various causes, which may occasion a deficiency of purchasing power, such as the accumulation of savings or depreciation funds in cash instead of investments, or the substitution of cash for goods in working capital, are really particular cases of the absorption of cash.

The real significance of the power of the banks to create or extinguish money is that it enables them to bring about the release or absorption of cash. If the net result of all the different causes at work is an absorption of cash, then there is a deficiency of purchasing power; if the net result is a release of cash, then there is an excess of purchasing power.

This account of the relation of the credit system to productive activity differs from that of Major Douglas in that it reaches the conclusion that an excess of demand is just as likely to occur as a deficiency. According to Major Douglas's theory there is a *persistent and inherent* tendency to a deficiency of demand. He has many hard things to say of bankers, but, if his theory is right, the deficiency of demand is not due to any fault of theirs; it is inherent in the system they are working. They stave off the tendency from time to time by an expansion of credit, but, he would say, it must inevitably recur unless the credit system itself is radically reformed.

How would he reform it? I understand him to recommend the provision of credit free of the obligation of repayment that attaches to credit created by a bank. [*Mr. Hawtrey understands it incorrectly. His argument* is *based on an incorrect interpretation. His premise is wrong so therefore is his conclusion – Ed.*] The proposal, in the tentative form in which he discussed it with the Macmillan Committee, provided for crediting the purchases of goods at retail with a proportion, say, one fourth, of the price charged by the retailer. Thus, anyone who bought a car for £100 would receive a credit for £25, which he could pay into his banking account. The credit would be payable by the state in paper money.

If the money spent on goods sold at retail amounts to £ 150,000,000 a month, then consumers would be able to buy one-third more for the same money. If they spent as much as before the sales would be increased in that proportion and traders would receive £50,000 a month more than before. Goods to that additional value having been sold from stocks, the stocks must be replenished, and orders would be given to producers equivalent to a one-third increase of output.

Suppose, as is probable enough in the present circumstances, that output can be increased by one-third without overstraining capacity. The result will be an increase in the consumers' income by one third. More people will be employed, and profits will be higher. We need not suppose that all the additional incomes will be immediately spent or invested. If we assume that £20,000,000 a month is added to consumer' balances, then the consumers' outlay will be increased to £180,000,000 a month. This will then be reinforced by consumers' credits to the amount of one-third or £60,000,000, raising the total sales to £240,000,000 a month. [*Apart from the fact that Mr. Hawtrey's mathematics* is *bewildering, once again he has demonstrated that he does not understand the principle and the mechanics of the Compensated Price proposal*.]

Where is this process to stop? When industry is employed up to capacity, the additional demand can no longer be supplied by additional output, and it will begin to force up prices.

It may be contended that under modem conditions productive capacity is so great and so elastic that it would never in practice be reached. But that is true of only a limited class of products, those to which mass production is applicable. When demand expands, one industry after another will reach capacity. The existence of a group of mass production industries, which can expand output almost indefinitely without any increase of cost price, will not prevent a rise of prices in all the others. And demand for the products of the former group will reach satiety at a time when it is still pushing up prices in the latter.

In fact, the proposed consumers' credits are none the less inflationary because they are applied to the reduction of prices. Inflation consists in an undue expansion of purchasing power, that is to say, of *income*.

The rise of prices is a consequence, which may be alleviated by subsidies like the bread subsidy of 1919. But that does not rectify the underlying disequilibrium.

This is, of course, no more than to appeal over again to the conclusion already arrived at, that there is not, in fact, the chronic deficiency of purchasing power in which Major Douglas believes. But we can now see it from a different point of view. If the new money created through consumer's credits and paid to traders does not return in the form of additional incomes, what happens to it? It must be retained by the traders. It cannot be extinguished, because *ex hypothesi* it is not issued by way of loan, but by way of free credit.

But why should the traders hold any more idle money than they did before? Perhaps Major Douglas would say that the money must be applied to the payment of those constituents of cost, which do not generate incomes. If we grant, for the sake of argument, that such constituents of cost exist, the money comes into the hands of those who provide them. Will they hold it idle? There is no new fact to affect their behaviour. They are paid for what they sell, but under the existing credit system they will have likewise have been paid.

Thus, even if Major Douglas were right, there would be nothing to impede the circulation of the new money created, and therefore nothing to prevent it from generating new incomes.

Now at a time like the present there is everything to be said for a device for generating new incomes and new purchasing power. The world is undoubtedly suffering from a deficiency of purchasing power. Major Douglas's plan may rank with many others as one for inducing inflation. But, so regarded, it is no more than a temporary measure. When industry has become once again remunerative and fully employed the consumers' credits must stop. Otherwise there will be an unlimited expansion of incomes and rise of prices. When Major Douglas appeared before the Macmillan Committee, Professor Gregory described his plan as one "to give all the population plenty of money," and he assented. Professor then asked "up to what limit?", and Major Douglas replied: "Up to the combined limit imposed by the capacity of the industrial system to deliver goods and services conditioned by the willingness of the people to work for the time required."

This seems to imply a limit imposed by the capacity of the plant and the supply of labour, and it might be inferred that the deficiency of demand on which Major Douglas lays so much emphasis is only intermittent, and is remediable, and that, once the consumers' credits have attained their object of making industry remunerative and fully employed, they can be dropped. But I do not think that would be reconcilable with what Major Douglas has said and written elsewhere.

Closely associated with Major Douglas's theory of the deficiency of purchasing power is his view that credit is something belonging to the community. That is the ground on which he defends the grant of free credits instead of repayable bank advances. Bank credit, it is said, is founded on real credit, that is to say, on the capacity to produce and deliver goods and services as, when, and where required, and that capacity, has been created by the community. Individual effort has only been fruitful in virtue of its environment.

This argument proves too much and too little – too much, because it touches private control of capital or profit just as much as private control of credit; too little because, however much the community may have contributed to the basis of credit, the question of control is one of practical expediency rather than of abstract right. The question of expediency is one, which I do not propose to examine in detail. If we do not accept Major Douglas's argument that the grant of free credit is essential to rectify a chronic deficiency of demand, the question of the nationalisation of banking falls to be discussed on familiar lines.

One other matter I must refer to. Major Douglas advocates the creation of credits in favour of *consumers,* credits that he compares to dividends paid by the community in respect of its accumulated wealth or productive capacity. Consumers' credits are by no means peculiar to him, and they are, I think, generally advocated as calculated to augment demand more directly and more immediately than credits granted to producers. In reality there is no such difference.

When a producer borrows from a bank, it is never with a view to holding the money borrowed idle. He applies it without delay to paying the costs of production, and, in doing so, he transforms it into income in the hands of consumers. Traders borrow; it is true, to pay the cost of buying goods already in existence from the stocks of other traders. But in general, when they do so, the sellers pay off credits as fast as the buyers obtain them, and there is no net creation of credit at all. [Readers should remember that Mr. Hawtrey was Secretary to the Treasury. – Ed.]

Moreover, when consumers receive credits and buy goods from traders, it is always *possible* that the goods may be supplied from stock and may not be replaced.

Nevertheless, when, as at present, business is so stagnant and pessimism so predominant that it is difficult to induce traders to borrow at all, there is something to be said for taking exceptional measures to place new purchasing power in the hands of consumers. Whether any such measures can be devised which are really practicable and are not open to objections that outweigh their advantages, I need not stop to argue. It is enough to say that emergency measures of this kind, which are not even appropriate to all trade depression, but only to those of exceptional intensity, are far removed from the plan recommended by Major Douglas.

MAJOR DOUGLAS'S REPLY

In replying to the able attack by Mr. Hawtrey upon certain aspects of my views, I am conscious of being in possession of certain advantages and subject to certain handicaps. Amongst the advantages 1 think I may fairly rank the fact that the theories which I have put forward do, in fact, explain the present position, which has become to be known as the "economic paradox" – a world which is overflowing with real wealth and yet has large numbers of its population upon the verge of poverty.

Not only is this the case, but the actual concrete measures, more especially in regard to taxation, which orthodox financiers advocate through their political representatives, are reducing still more of the population to a condition of material poverty and economic impotency. The ordinary citizen cannot buy, and the manufacturer cannot produce, not for physical reasons, but for reasons which, by common consent, are purely financial.

Further than that, the remedies which are put forward from official and orthodox sources seem to me to be a complete admission of my case. Both in this country and in America the spending on Public Works of large sums of money derived from loans created by banks is considered to be the only feasible method of meeting the situation to which I have just referred. Looked at from the financial point of view, this simply means the distribution of considerable amounts of purchasing power through the agency of wages and salaries, in respect of the production of things, which are not expected to be bought by the public, at any rate in the ordinary sense of the word, and the purchasing power so distributed bridges the deficit in the amount necessary to purchase the goods which are produced through more ordinary channels of manufacture. This proposal seems to me to admit at once that the amount of purchasing power distributed through the ordinary processes of manufacture is not sufficient to buy the goods for sale, and that this purchasing power must be augmented from other sources, which do not put fresh goods for sale upon the market. I may say at once that my objection to this proposal is that it can only be implemented by the creation of still further enormous, debts to the banks, thus riveting the control of the banking system still more firmly on the shoulders of a population already suffering severely from this cause.

The main handicap under which I suffer in replying to Mr. Hawtrey is that the difficulties of appreciating the true facts of the present situation are not so much intellectual as psychological. I am here tonight not so much in the role of an expositor as that of a demesmeriser and exorcist.

The existing financial system is the living embodiment of the kind of faith, which the schoolboy described as " believing what ain't so". It is, in fact, Black Magic. We use in everyday conversation all kinds of little phrases skilfully designed to suggest illusive interpretations of what actually goes on in the financial system, such as, for instance, that Mr. Jones is making money very fast. If Mr. Jones is a banker this may be literally true, but if Mr. Jones is anything else but a banker either it cannot possibly be true, or else if it does happen to be true, Mr. Jones will very rapidly find himself in gaol as a counterfeiter. When we say that Mr. Brown is worth £100,000 or Mr. Robinson has been left £200,000, we suggest that at any moment either of these gentlemen is in a position to draw a cheque for approximately those sums. Once again, without the intervention of the financial system itself, and notably the banker, both of these statements are probably incorrect. What we mean is that it is possible that someone will give these sums for the property left to Mr. Robinson, or in the possession of Mr. Brown. It is quite possible that either Mr. Brown or Mr. Robinson may be very seriously concerned as to how he is going to get ten pounds to pay his next week's hotel bill. All these misdescriptions intensify the confusion in the mind of the average individual between what we call "price values" and purchasing power, and it is of primary importance to keep the difference between actual purchasing power and price values very clearly in your minds.

In order to emphasise this difference I should like you, first of all, to consider this diagram. *Figure 1.* [Not included here.] At the top we see the bank, the money manufacturer, the only institution which, as such, actually manufactures money and destroys it. Mr. Hawtrey and I are in complete agreement about this, and, in fact, I refer to Mr. Hawtrey's lucid exposition of the technique of the process when I don't want to explain it myself. On the left, we have the goods manufacturer, whose function in the financial system, as apart from the physical production system, is that of a distributor of purchasing power, created by the banks, and an allocator of costs which include, but do not wholly consist, of money distributed by him.

At the bottom we have the citizen in his dual capacity of earner and spender, and on the right we have the retailer who distributes goods but collects money, and returns it to the banks, whence it starts out upon a fresh cycle. I have shown the manufacturer and the retailer connected by a line to indicate that they are under a single proprietorship, so that the money collected by the retailer can be paid directly into the bank instead of going through the manufacturer's book again.

Now if we assume the deposits in the banks to be constant, i.e., no inflation or deflation, and that the economic process is a continuous flow, a point rightly insisted upon by Mr. Hawtrey, three things must be happening. Firstly, the manufacturer must be distributing money to the citizen at a constant rate.

Secondly, the citizen must be spending it at a constant rate, which is equal to that at which the manufacturer is distributing it, and thirdly, the retailer must be paying it back to the bank at a constant rate equal to the rate involved in the two preceding transactions. Please note particularly that this is absolutely all that is required. It is not necessary to this process that all the goods which the manufacturer manufactures shall pass over either to the retailer or to the citizen. If the manufacturer makes a hundred units of goods for a hundred pounds, and the retailer sells fifty units of goods for a hundred pounds, the conditions of the system as shown are satisfied. Before proceeding further, I should like to emphasise that the satisfaction of the condition described in the diagram is the basis of the existing financial system. It may be described either as the principle of the balanced budget, that is to say, that all outgoing shall be balanced by incoming, or it may alternatively be described a the postulate of the manufacturer, that all his costs, whether distributed or allocated, shall be recovered in prices. These two things are the same in intent.

Let us now turn to the manufacturer. He has no power of making money in the literal sense, but he has the prerogative of allocating cost. At this point please note that his allocation of cost can fall into three main headings at any moment.

First, the money or purchasing power which he is actually distributing to the citizen in his capacity as an earner. Secondly, an additional figure which represents his idea of his own remuneration, and which he calls "profit", and thirdly, the sum which represents the claim for debt, including semi-manufacturers. I do not wish to go at the moment into the exact division of allocated costs into profit and recovery of debt, or the justification for these divisions, I merely wish to establish that every manufacturer can and does both distribute costs in the form of wages and salaries and allocate costs which are not distributed as wages and salaries. These latter costs can only be distributed *after he has sold all his goods,* and collected both the distributed and the allocated costs, and he does not *distribute* enough *before* they are sold to buy them. There is only one additional distribution to the public – dividends. He would obviously have to distribute simultaneously through the agency of dividends, *etc.*, the average amount of the allocated charges, and apart from semi-manufactures, this average in Great Britain is probably between 125 and 150 per cent., and in the United States between 250 and 300 per cent.

It is only necessary to realise that the equilibrium to which Mr. Hawtrey refers would require the steady distribution by every single producing concern, probably not excluding farming, of dividends at the rate of 125 per cent. on turnover, or probably 500 per cent. per annum, to realise how far his contention is from representing the case.

It is probable that the *average* dividend on industry does not exceed 2 per cent. It may not be out of place to remark that the increase of overhead charges in relation to direct charges is a direct measure of industrial progress. In *Figure 1* the distributed costs are shown as A and the allocated costs are shown as B. When the product is transferred to the retailer its price is A plus B, and as you will see from the diagram, the only distributed purchasing power is that represented by A, and since A will not purchase A plus B, a portion of the product is obviously unsaleable.

In this form the financial system is too flagrantly unworkable. We know it has worked after a fashion, and we have to seek an explanation as to what would make it work. I do not think that this is at all difficult. If you turn to the diagram *Figure 2*, you will see that I have added another factory working on exactly the same principle. The wages and salaries distributed by this second factory also go to the citizen in his capacity as earner and, of course, they increase his purchasing power. More money flows through the hands of the retailer, and more goods are sold, simply to the extent of the A payments made by factory No. 2. Part of this money goes, as before, to provide the wages and salaries for a new cycle of production, and part of it to cancel the allocated cost of factory No. 1 and thence back again to the bank. You will notice, of course, that none of the products of factory No. 2 have been bought. The wages and salaries distributed by factory No. 2 have merely gone to purchase the previously unsaleable products of factory No. 1. The product of factory No. 2 must therefore be something which is not bought by the citizen, it must be either exported and paid for outside the country, or it must be paid for by adding still another factory on to the chain and charging its expense to capital, thus creating an additional debt. This is the explanation of the fact with which we are all familiar as a fact, that the existing financial system works comparatively well in a period of continuous expansion or where the product is continuously destroyed, as during a war. But that each of these boom periods creates a mass of debt which makes a still more serious slump inevitable is beyond dispute.

There is a great deal more to be said on this subject, and I have elaborated it considerably in my reply to Professor Copland, (See full explanation in *The New and The Old Economics* by C. H. Douglas) of Melbourne, and Professor Robbins, of the University of London. The whole of Mr. Hawtrey's attack upon my views rests, I think, on a denial of the general proposition, which I do most distinctly make, that there is an inherent defect in the financial system as it works at the present time, which persistently tends towards a deficiency of effective demand as compared with the total prices of the goods produced.

When Mr. Hawtrey says that it is possible to have an excess of demand, I think what he means is that it is *possible* to have an excess of demand for *consumable* goods, in which I agree with him. It *is* possible to have this excess of demand by making a large quantity of goods which are not intended to be sold to the public and using the purchasing power distributed in making these goods to buy consumable goods. That happens in wartime. I do not regard it as being a sane system that before you can buy a cabbage it is absolutely necessary to make a machine-gun, whether or not you want a machine-gun. I should further claim that, for reasons which will be quite apparent to anyone who will examine the diagram to which I have referred, and the arguments which accompany them, that the inherent defect is a cumulative defect, and that every temporary rectification along the lines which, apparently, are the only lines to which our financial authorities would agree, makes the subsequent crisis both more inevitable, more profound, and more certain to come at an even shorter interval than that of the preceding crisis.

Now it is perfectly true that the soundness of the remedy which I propose rests on the fact or otherwise of this deficiency. If there is no shortage of purchasing power as compared with prices, it is quite certain that we do not want or require to provide more purchasing power, and conversely if there is a shortage of purchasing power as compared with prices we *do* want to provide more purchasing power. My contention is that, with the normal production of capital equipment which is required *for its own sake,* as distinct from a mere device to distribute purchasing power, the amount of purchasing power available to buy consumable goods is far inferior to the price attached to those consumable goods by the normal process of manufacture. As one might say, the industrial process provides 100 penny buns, but only fifty pennies with which to buy them. The remedy is clear, and that is to sell the 100 buns for fifty pennies, that is to say one halfpenny each instead of one penny, and to make up the capital charges at the point at which they are allocated by issuing to the allocator of capital charges the other fifty pennies.

This is, of course, a very crude description of the process, which has been much elaborated elsewhere, but in effect that is what it comes to. To say that this is inflation, is to my mind completely to misconceive the meaning of the word "inflation".

Turning now to Mr. Hawtrey's specific comments, he says that apparently I say that the price of the boots includes the price of the leather twice and the price of the hide three times. This is far from my meaning. What I do say is that by the passage of one unit of purchasing power through the costing system repeatedly, several units of price values can be created without creating fresh purchasing power. The full explanation of this process is given in my evidence before the Macmillan Committee, sections 4498-4501. As this is vital to an understanding of the situation, I will repeat these replies here.

> Suppose first that I have £1,000, and I pay that £1,000 away for the purpose of having a house built. We will imagine that the whole of the £1,000 goes in nothing but wages, which does not in any way affect the argument, and we will also suppose that by doing work on something else the workmen could live and save all that they earned by house-building. Suppose now that the workmen who built the house, who collectively would have my £1,000, decided to buy the house, and I agree to sell to them for £1,000. Notice that no question of profit arises. The workmen now have the house, and I have my £1,000 back again.
>
> In other words, the workmen have obtained the house merely by working for it. But these workmen would express it by saying that they had paid £1,000 for the house. I am now out of the transaction altogether, and we will suppose I find my money removed to another planet, or we can suppose that I tore up the money which was returned to me (which is the equivalent of the repayment of a bank loan). Suppose now that the workmen decide to use the house to make and sell shoes. If they carry on the business on orthodox business lines the cost of the shoes will consist of at least three items: (i.) wages, (ii.) raw materials, (iii.) rent of factory, *i.e.*, house.

> We will suppose, for the moment that they get their raw materials for nothing, and that the "Rent" of the house is nothing but an appropriation of money of such amount that when the house eventually falls down they will have got back their £1,000. It is technically called "depreciation". Since the public gets the shoes, clearly they ought to pay "depreciation". Notice, therefore, that neither interest, *i.e.*, "usury," nor dividends, nor land monopoly are imported into the question.
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> But the simple and vital fact remains that the wages paid during the production of the shoes are less than the price of the shoes by an amount large or small, which is added to the cost of the shoes before the shoes are sold, representing, at least, "depreciation". This amount, which is added to the cost of the shoes, represents overhead charges in their simplest form, and in many modern production [operations – Author] overhead charges are between 200 and 300 per cent of the direct cost of the product. It is *not profit*. Suppose in the instance given above that having sold my house to the workmen I had used the £1,000 to build another house, with which I had repeated the identical process. Once again I should get the same £1,000 back again; once again the workmen would have got into possession of the house, merely by working for it; once again they would have created an overhead charge on anything they manufactured in the house of £1,000; and although there would only be £1,000 of money in existence in respect of the production of the houses there would be £2,000 of prices created in respect of the two houses which would have to be recovered in the price of something sold to the public, and the amount of money and purchasing power would be exactly what it was before the houses were built.

Mr. Hawtrey, when he says in his statement, beginning with, "The accumulation of the essential capital equipment" and ending at "the goods placed on sale", seems to me to be at confusion between price values and purchasing power, the confusion to which I referred at the beginning of my reply. For instance, Mr. Hawtrey says that incomes arise out of production. They do not. *Price values* arise out of production, *incomes* arise out of purchasing power created by the banks.

Mr. Hawtrey objects to certain of my comments on depreciation, and I think he confuses depreciation with maintenance. Maintenance, if properly carried out, means that there is no depreciation, which is the situation covered by the building of the second house in the illustration. There may be obsolescence, to which he refers by implication when he says that it may have to be replaced by plant of greater efficiency. This means *appreciation,* and the difference between net obsolescence and appreciation is net increase in capital value. I think much the same confusion is evident when Mr. Hawtrey remarks that when anything is brought into use in production, the seller is likely to invest the proceeds of the sale. There is nothing in this which increases the amount of purchasing power available. He then says that capital equipment enters into cost in the form of maintenance, depreciation, and interest when it has been completed and is being used. To reckon it as an item of cost also when it has been constructed is to count it twice over. It seems to me to be obvious that if the purchasing power distributed during its construction was used in buying consumer goods, then the purchaser of consumable goods paid for the capital equipment at the time that it was constructed.

Mr. Hawtrey seems to recognise this, but says, "that if it does no deficiency of demand is caused". "The production of new capital itself, whether it be plant or stocks of commodities, generates incomes equal to its cost". This is, of course, not the case, since the allocation of costs in excess of sums distributed as purchasing power takes place in the factories in which the capital goods are produced in exactly the same way as in any other factory. Mr. Hawtrey says, "Foreign trade introduces a complication, but does not materially modify the general principle". I should disagree with Mr. Hawtrey here. The exports of actual goods takes those goods out of the home market in return for paper tickets, in the form of bills of exchange or otherwise, which augment the purchasing power in the country to the same extent that actual wealth has been taken out of the country. In this way exports counts twice in redressing the balance between prices of goods for sale, and purchasing power.

That is why export trade is so important to the financial system as it is at the present time. But the physical meaning of the transaction is that goods are given away for nothing. We are all familiar with the idea that exports are paid for by imports, but if that were true, it is an extraordinary thing that we put tariffs on to keep imports out. Mr. Hawtrey makes a remark, which I regard as of primary importance. He says, "If his theory (that is, mine) is right, the deficiency of demand is not due to any fault of bankers but is inherent in the system they are working". I absolutely agree. It is the inherent defect in the system which renders the monopoly of credit, that is to say, the power of creating fresh purchasing power, of such tremendous importance, and my chief complaint against the bankers, such as it is, is that in showing such determination both to maintain the system and to stifle public criticism of it, they assume responsibility for a defective system. The final criticisms of Mr. Hawtrey's paper are directed to the more abstract questions of the true ownership of public credit, and the administration of industry. These subjects are of quite fundamental importance, but to deal with them adequately seems to me to be outside the possible scope of the present debate. I can assure Mr. Hawtrey that there is nothing that would give me greater pleasure than to debate these subjects with him at considerable length, and if at any time he finds that his engagements permit him to do this, I trust that he will allow me that opportunity.

[*Here followed the interval for discussion, at the end of which the Chairman called upon Mr. Hawtrey.*]

MR. HAWTREY'S CLOSING STATEMENT

MR. HAWTREY: Mr. Chairman, ladies, and Gentlemen, I am very grateful in the first place to Major Douglas and also to the various speakers for the very interesting and thorough commentary on my opening remarks. It would perhaps be almost too much to try to answer everything, even to answer everything in Major Douglas's excellent and interesting paper, but I will deal with what I regard as the most important points.

Major Douglas opened by referring to the economic paradox, poverty in the midst of plenty. That is a point on which I think he and I are at one in that we should both attribute the paradox to a shortage of purchasing power. The difference between us, as I pointed out in my opening paper, is that where as he regards the deficiency in the purchasing power as inherent and persistent, I regard it as intermittent. I believe it alternates with an excess of purchasing power, and that if it is not quite correct to say the excess or deficiency is in each case wholly caused by the banking system, I would, at any rate say that it is within the power of the banking system to correct either excess or deficiency in time, and therefore to avoid a recurrence of trade depression; not only of a trade depression such as we are experiencing at the present time, but of the milder trade depressions, which were a familiar feature in the nineteenth century economic system, and earlier still.

Now you will remember that in my paper I argued that Major Douglas was mistaken in finding items of cost which do not represent incomes. I dealt separately with the question of raw materials and semi-manufacturers on the one hand, and with various capital items, such as maintenance, depreciation, and extensions on the other hand.

With regard to raw materials and semi-manufactures, Major Douglas says that I was mistaken in supposing that he meant – to take the example that I quoted – that hides appear three times and leather twice in the cost price of boots to the consumer. He says that he does not mean that they appear more than once in the price to the consumer, but that they occur in the price values, which includes, I think, the price charged by one trader to another.

MAJOR DOUGLAS: The fact of one unit of purchasing power recurring a number of times through the costing system produces an additional price value each time it passes through, so that you have an additional price value.

MR. HAWTREY: I am still quite in the dark as to whether the value of the hides appears three times and the value of the leather twice in the price at which the boots are sold to the consumer. I cannot see any other interpretation possible of what Major Douglas says.

MAJOR DOUGLAS: I should like to clear that up. There is a very real difference. I can very easily appreciate the difficulty of appreciating the difference.

I do not say that the price of the hides appears two or three times in a pair of boots. What I do say is that you can make three or four pairs of boots by the existing process without distributing more purchasing power than is necessary to buy one pair of boots. That is not the same thing as saying the price of the hides occurs three or four times in one pair of boots. I say you can produce three or four pairs of boots, having only the purchasing power available to buy one pair of boots.

MR. HAWTREY: With all respect I venture to say it is exactly the same thing whether the price of the hides appears three times over in the price of four pairs of boots or in the price of one pair of boots. If it is a fact that the boots have to be sold at such a price that four pairs of boots include the recurrent value of the hides. (Interruption)

THE CHAIRMAN: Ladies and gentlemen, it will be of great assistance to the clarifying of the difficult points on which we are engaged if you will give your quiet attention to what is happening on the platform. It is quite impossible to carry on a discussion on the level which we are attempting here if you are not going to give your serious and quiet attention. I must ask you to exercise considerable restraint. I would prefer you to keep perfectly silent while this discussion is taking place and imagine you are listening to a broadcast discussion. Will you please allow the discussion to go on without any interruption either by laughter or by comment so far as you possible can?

MAJOR DOUGLAS: The point, the very subtle point, I am trying to make is this. The whole of the objection to the present state of affairs as I see it is that it inevitably makes more things than can be bought. That is the point that I wish to make; that by a process by which a given amount of purchasing power which *ex-hypothesi* is controlled up at the Bank, so far as the normal system is concerned, there is a constant circulation of purchasing power starting with the Bank, going through the producer, through the retailer, and back again. Now for the sake of this argument, and this is, of course, the normal way of looking at these things, the point is that the amount of goods which can be bought at, let us say, a given price level is solely conditioned by the volume of this stream (Diagram 1), or if you like to put it more correctly, the cross sectional area of this stream, and that cross sectional area, if you imagine it to be kept constant, will automatically require the production of a surplus of unsold goods. That is the point.

MR. HAWTREY: I am very grateful to Major Douglas for his further explanation, but I must confess that it seems to me to be simply begging the question, because my argument was that every item that does appear in the cost of the goods sold to the consumer can be identified with incomes paid out. You will remember that for the moment, I am now discussing Major Douglas's point with regard to raw materials and semi-manufactures. So far as those classes of goods are concerned there can be no discrepancy caused between the selling value of the goods produced and the incomes that arise in the course of their production unless some phenomenon as a duplication of the value of the materials in the price of a final product is involved. If there is no duplication and if each item appears once and once only, the hides appear once only and the cost of the operations applied by the tanner to the hides appears once only, and the manufacturing operations applied by the bootmaker to the leather appear once only, an so on. If this is the case then there is no discrepancy arising from raw materials and semi-manufactures. Of course, Major Douglas's illustration and his diagram were based on the assumption that there was such a discrepancy, but he has completely failed to put his finger on the source of it.

Well, now, there remains the other side of my argument – that relating to the maintenance, depreciation, renewal and extension of fixed capital. There are a number of points that Major Douglas made in relation to that.

In the first place he said that my argument was based on a confusion between maintenance and depreciation, and he went on to explain that if there is adequate maintenance no replacement is necessary. I do not think that is correct, because, however perfect the maintenance of plant is, there would obviously be certain types of plant that would not last for ever. A time comes at which the wear of parts or some other form of deterioration is such that replacement costs less than continued maintenance. Depreciation, in the sense in which I used it, is a very real item of cost, and it takes a concrete form in the actual construction of new plant to replace, that which has to be scrapped. Major Douglas recognises that obsolescence has also to be allowed for. He spoke of obsolescence as if it necessarily led to the substitution of more costly for less costly plant. That is not necessarily so. I did refer in my paper to the contingency where it is so, but you may quite possibly scrap a more costly plant in favour of a less costly, which has been invented since the old plant was first installed.

I think that perhaps the best way in which I can reply to Major Douglas's arguments in regard to depreciation would be by reference to his own example of the house. He supposes a house is built at a cost of £1,000 and that it becomes the property of the workmen who actually constructed it. And he supposes that it is a building used for industrial purposes and that the depreciation of the house is charged in the price at which the goods are sold to the consumer. But he left out the replacement of the house altogether. He supposes that during the manufacturing process the depreciation money is accumulated in the form of money and not spent. Now that is a case I did refer to in my paper. I pointed out that when depreciation is accumulated in the form of money, idle cash balances, that that causes a deficiency of purchasing power.

Likewise, I pointed out that when savings are accumulated in the form of idle money there is a deficiency. There is a deficiency when goods are sold out of working capital, and the proceeds are held idle. All these are contingencies, which would *by themselves* produce a deficiency of purchasing power. But I pointed out that the question of whether on balance there is a deficiency of purchasing power depends on all such items pooled together. You cannot say that a particular individual who is accumulating idle cash is causing a deficiency of purchasing power when his neighbour is releasing cash, so that the demand emanating from the two together is exactly equal to their incomes.

As I explained before, I regard the functions of the bankers in regulating credit as being fundamentally directed to inducing what I call the release or absorption of cash in the first case causing an excess and in the latter a deficiency of purchasing power. Major Douglas also referred to my argument that, when money saved out of income is applied to the construction of new fixed capital, incomes are generated by the construction of the capital goods, and no dis-equilibrium is caused. Of course, as I pointed out, if people save and hold the money idle, that, so far as it goes, tends to cause a deficiency of purchasing power; but if instead of holding the money idle they spend it on the construction of new capital goods of which they become the owners – they may be direct owners or they may be shareholders or bond-holders with rights of participating in the capital enterprise – when they spend their money in that way there is no loss of equilibrium, because their purchase of capital goods is *demand* in exactly the same degree and the same sense as their purchase of consumable goods would be. When you buy shares in a new capital enterprise you are passing on your money to the producers of capital goods represented by those shares, just as when you are buying a hat you are passing on your money to the producer of the hat, so that in so far as that money that is saved is invested in new capital goods there is no deficiency of purchasing power caused.

Major Douglas suggested that when people are engaged in constructing capital goods and use the incomes they derive from that process to buy consumption goods there is in some sense a sterilisation of the purchasing power, but there he is, I think, completely mistaken. This process by which people exchange their services, through the medium of their incomes for capital goods is exactly analogous to the exchange of their services through the medium of their incomes for consumption goods. Therefore, you will see that the different types of outlay that are connected with fixed capital all generate incomes in just the same way as the outlay on consumption goods. There is in fact no point at which there is a shortage.

Now, in what I have just been saying I have, of course, made no reference to the time element, but that in no way invalidates what I have been saying because, as I explained in my paper the only condition for equilibrium between demand and supply is that the incomes available to be spent within an interval of time should be equivalent to the goods produced for sale *within the same interval*. It does not matter how far those incomes are connected with the production of those particular goods, or with the goods which are coming in on sale later, or how far the incomes that are accruing during the interval are applied to the purchase of goods produced before. Provided that within the interval you get a balance between goods and incomes, there is no excess or deficiency of purchasing power. An excess or deficiency may be caused by the release of cash or the absorption of cash, and the banking system may be responsible for that release of cash or absorption of cash.

I may remind you that in my paper I used the expression “release of cash” for the case where the payments out by traders to the people whose incomes they pay exceed their receipts. On the other hand the absorption of cash means an excess of the traders’ receipts over their disbursements. That excess of receipts over disbursements means that we are laying up the proceeds of sale of goods, and preventing all those proceeds of sales from becoming incomes, and there you do get a deficiency of purchasing power.

There are one or two smaller points, which I think I ought to mention. I am afraid when I said that "incomes arise out of production", Major Douglas misunderstood me. I mentioned that as one of the matters in regard to which he and I are in agreement. I did not for a moment mean to imply dissent from the statement that he makes, that, in order that incomes may be generated by production, the banks, under our existing system, must supply the necessary money. At the same time that I expressed agreement with him on the former point, I also said I agreed with him in thinking that the banks created money. I think that he is mistaken in supposing there is any real difference between us there.

Then I must refer to his statement that equilibrium would require dividends at the rate of 125 per cent. Of course, when he makes that calculation he is once again, as I should say, begging the question. If he was right that there were all these allocated costs, which do not materialise in incomes, then some calculation of that kind would be in point. It is not exactly consistent with the 25 per cent. consumers credit that he advocated before the Macmillan Committee. On the other hand, you will remember the 300 per cent indicated by Mr. Orage in one of Major Douglas's earlier books; that consumers' credits were to be three times what the consumer spent out of his own pocket. But all these calculations, of course, represent nothing more than the calculation of the A plus B theorem *on the assumption that it is correct*.

Apart from the arithmetical calculation in that case I want also to refer to what Major Douglas says with regard to "dividends". He points out that it is only certain items, wages, and salaries that actually accrue before the goods are sold; that everything else, the other constituents of cost do not become available until then. I think that when he says that, he is doing less than justice to his friends the bankers.

Their function is to make available the incomes at an earlier stage than the final sale of the product. It is through their intervention that it is possible to pay wages and salaries in advance of the sale.

And, moreover, it is not in all cases that the bankers have to intervene for the purpose; in some cases the necessary funds are provided by the permanent capital of the concern. All the complications arising from the succession of these items of cost in time are covered by the general formula, which I used further back as to the incomes accruing, and the goods placed on sale within an interval.

THE CHAIRMAN: Ladies and gentlemen, I will now call upon Major Douglas to wind up the debate.

MAJOR DOUGLAS'S CLOSING STATEMENT

MAJOR DOUGLAS: Mr. Chairman, Mr. Hawtrey, Ladies and Gentlemen – If everyone in this hall has enjoyed listening to Mr. Hawtrey as much as I have, I feel quite sure you have all enjoyed yourselves very much. I think it has been most interesting and illuminating to all of us. Now the first point that Mr. Hawtrey raised was where did the source of the discrepancy arise? I will deal with that in one minute. I should like to deal with what is practically his last point first, because it makes it easier to deal with the first point. It is perfectly obvious that the whole of this question really depends on a question of fact. If you string out those factories (Diagram 2) indefinitely, to represent all the factories in this country, is it a fact that al1 of those making a profit *at any moment* can be found to be allocating charges which they do not distribute? It is most unquestionably a fact. That is the way in which a factory is run. The question of what is the actual percentage of those allocated charges which are being allocated simultaneously in every factory so that the price values of the goods which are being produced in that factory are in every case of a profit-making concern in excess of the sum which is being distributed in wages and salaries, is a question of fact. That is the case in every factory. Now the question of the figure is a question of opinion, but I think it must be very obvious that whatever that figure is, it must be represented by that percentage of dividend, because there is no other way, excluding exports, of distributing purchasing power that I am aware of, except wages, salaries, and dividends. I include in "dividends" such things as interest, and things of that sort.

The average rate of distribution on turnover must be the same as the allocated charges or else those allocated charges cannot be met. That seems to me to be quite self-evident. The question of the actual figures as to whether every factory, in order to satisfy this condition, ought to pay 100 per cent. or 125 per cent. is a question of figures. There are a great many complications coming into that, and I have dealt with them elsewhere, but as to the fact, it seems to me absolutely unassailable.

MR. HAWTREY: I think it possibly might help if I put a question. My question is: who are the recipients of these allocated charges; and, secondly, when you put your finger on the recipients can you be sure that they are not intermediaries passing on the money in the form of salaries and wages?

MAJOR DOUGLAS: There can be no recipients of the allocated charges unless they are collected from the public first. That is the whole point. The allocated charges simply represent a claim upon the public, which can only be met by the distribution of purchasing power at some source, which is not in wages and salaries. If you have a distribution of purchasing power from additional sources equal to the amount of allocated charges, then the goods, which are represented by these allocated charges, could be bought. The allocated charges, as charges, are not received by anybody, they are simply tickets hung on the goods, and in order to buy these goods you must have something representing, not merely wages and salaries, but something which I can only describe as dividends equivalent to the amount of the allocated charges.

MR. HAWTREY: I am grateful to Major Douglas, but he has not in the least met my point. It is a mistake to suppose that any producer is required to include in his costs some bookkeeping entry that never materialises at all. If he has got to include the provision for depreciation, for example, in his costs it is because he has got to spend something some time. He has got to replace his worn-out plant. The depreciation is not in respect of what he has spent; it is in respect of replacement in the future.

So far as what he has spent is concerned, what he has to spend is interest and maintenance. If you take the case of something that maintenance will keep efficient for ever so that no provision has to be made for replacement, why then he makes no book-keeping entry for depreciation at all, or if he does, it is a nominal entry and one which he knows has no other function except as a small additional saving or payments to reserve for the financial strengthening of his business. The only case in which he need make any charge in the price of the goods he sells on account of depreciation is the case in which he faced with the prospect of having to spend money on capital replacement, and when he spends the money all he has put in the depreciation account has to pass out in the form of incomes to the people whose services contribute to produce new capital.

Here you have, the root of the matter. Major Douglas believes these are entirely fictitious items of cost. I contend they are not fictitious. They materialise, they tum into costs in the usual sense. They are incomes paid for services rendered. That is the real solution, and that applies to all items of cost.

The complication that arises is when the items of cost are distributed through time. I dealt at considerable length with that, and I think it is a satisfactory solution.

MAJOR DOUGLAS: I will put a question of fact to Mr. Hawtrey. Will he show me any factory in which the sum of the wages and salaries and dividends spread over – we won't bother about the dividends being distributed at the end of the year – in which the sum of wages, salaries and dividends is equal to the price values produced in the same period of time? It is impossible to show me such a thing. If you will string out those factories into any number of factories you will find that every one of them is allocating charges, which can only be recovered through price, and collectively they can only be recovered through price by the prior distribution of the total amount of the sums allocated. If it is true, and it is true certainly in a number of cases, that the allocated charges are, let us say, 600 per cent. or something of that sort, that is, perhaps an exceptionally high figure, as in stamping plant, but it does occur.

If you are going to get that 600 per cent. out of the public you have to get it by distributing it first of all, otherwise it becomes a debt against industry. We come now, and I think I can make my point clear, to his first point, and that is the source of the discrepancy to begin with.

The source of the discrepancy to begin with is in the process of investment. Supposing there was none of this discrepancy to begin with, that is to say, if we start from zero, if you save a certain amount of money, which has been distributed through the process of creating costs, then quite indisputably the goods having the price values representing the amount of money saved cannot be sold again or bought. I think you have admitted that.

MR. HAWTREY: I am sorry to interrupt again. No, I say that if money is saved in an interval of time, and is not held in the form of idle money, but is applied to investment, that is to say, on outlay of new capital goods, there is no disturbance of the equilibrium whatever.

MAJOR DOUGLAS: That is the whole point. I want to split that statement up into succeeding stages. Let us say as a physical fact that in the City of Birmingham £100 of wages are distributed this week and that £50 of those are saved. The goods, which were produced during this week, would have at least £100 of cost in them without going into the question of allocating cost at all. Quite obviously, if you save £50 that £50 of goods, which are represented by the saving cannot be bought at the moment. Now then, supposing you apply that £50, not to buying those consumable goods, but to create some more capital goods, in making those capital goods the £50 will undoubtedly go out again into the consumers' market, as you yourself explained, and the consumers' goods, the original consumers' goods, can now be bought. The deficiency has been restored, but you have capital goods to the extent of £50 against which there is no distribution of purchasing power as described by that process. (Applause)

Now those capital goods are regarded by the people who own them – and have paid out for them – saved the money, the actual purchasing power, and have paid out that purchasing power for the construction of those goods – they regard them as the equivalent of that £50, and eventually that £50 has to be recovered from the public, either in the form of interest, or depreciation or other things. My point is that £50 does not exist in purchasing power.

MR. HAWTREY: My first comment on that illustration is that the £100 being paid in wages would include so much wages as are being paid at that time for the construction of capital goods. It may be that, to start with – assume it only – the whole £100 are being spent on wages arising out of the production of consumption goods. On that assumption, suppose that the wage-earners started saving half of their receipts, so that the demand for consumption goods shrinks by half, and there is an entirely new demand of £50 for capital goods. That is the illustration, I think.

MAJOR DOUGLAS: May I protest against the use of the word “shrinks”. You have already made the consumable goods; otherwise the purchasing power would not have come into the hands of the public to be saved.

MR. HAWTREY: The production of consumable goods is going on concurrently, and the particular moment comes at which, although the production of consumable goods is proceeding at the rate of £100 per week, half of the demand for them suddenly vanishes owing to the fact that the wage-earners are beginning to save half of their incomes. Well, at that moment, there arises a demand for capital goods of the value of £50. That demand has to be fulfilled somehow or other by the diversion of productive power into the production of capital goods. Of course, it may be that the industry is under-employed, and that you will give new employment in the production of capital goods and throw part of the workmen producing consumption goods out of employment, or, alternatively, it may be that industry is fully employed, and that people hitherto employed in making consumption goods have to be diverted to the production of capital goods.

But whichever happens, there is no loss of equilibrium between demand and supply as a whole. This is a particular case of the contingency I referred to in my paper where there is a change in the proportion of demand applied to consumption goods and capital goods respectively, but there is no shortage or excess of demand as a whole. I think, if I understood Major Douglas's illustration rightly, that meets his point. You change to a new state of equilibrium where £50 of consumption goods and £50 of capital goods are balanced by equal demand for each category. The process of change will undoubtedly involve dislocation.

Everybody is quite aware that sudden economic changes of any kind involve a certain amount of loss and distress. That is not the point. There is no shortage of demand as a whole.

MAJOR DOUGLAS: I am afraid the only way in which the people would save £50 would be that they have already got it through the process of production. Therefore, they must have made something, which they saved by refraining from buying. When they allow that £50 to be used again to produce something else, the original £50 of price values, which they did not buy, still remains, and new price values by the use of the £50 again were added to them. That, I am afraid, is how I must leave that.

The same question really comes up in connection with Mr. Hawtrey's second point, and that was that I did not allow for the depreciation in the example of the house. That is just exactly what I did do.

That is why I brought in the second house. When the first house was built, you remember the money was returned to the original provider of it, and in the first illustration he was supposed to have tom it up, so that there was the house of the value of £1,000, but no money. Now the people who used that house for making boots and shoes, charged, in one form or another, that £1,000 into the price of the shoes, because, they said, they had paid £1,000 for it.

Now, if, instead of tearing that £1,000 up – which, as I said, is the equivalent of repaying it to the Bank – they had built another £1,000 house, and the workmen had bought it again in the same way, they would have carried out exactly the process which is involved in replacing something which you are depreciating by a financial process, and you would have used the £1,000 again to build the second house which was to replace the first house. But that would not get over the fact that with £1,000 of actual purchasing power you have produced two houses, each valued at £1,000 and the value of both these houses has to be recovered in the price at which the goods are sold.

MR. HAWTREY: As you now explain your illustration, you are supposing that the workmen charge for depreciation for the use of the first house, but when the time comes to build the second house, the first house does not require to be replaced. Therefore, the depreciation fund does not have to be used to build the second house. It is only necessary to charge depreciation on the first house with a view to replacement when necessary, and the assumption is that the house is not replaced.

But if it *were* replaced, then, what I said earlier on would apply, that is to say, that the charge for depreciation represents a charge, which materialises in the payment of incomes in the form of wages, salaries, and dividends, and so forth, when replacement actually occurs.

MAJOR DOUGLAS: Well, I think I can only repeat the explanation, so that I will leave it at that. I have myself no doubt, and I feel sure that if Mr. Hawtrey reads that explanation over he will agree later that it is possible to have a repeated production of price values by using the same money over and over again.

Now the question of the effect of overheads I dealt with before. I entirely agree with Mr. Hawtrey – as I agree with him on so many points, and I feel sure ultimately we shall probably agree on most points – that the whole question is a question as to whether incomes in a given period of time equal the price values which are produced in the same interval of time.

I should myself – subject to going into the details on all the points Mr. Hawtrey raised, say that in his illustration of how he made incomes equal the price values, he brought in a great many factors which do not occur in the same interval of time, and the whole essence of that is the question as to whether they do occur in the same interval of time.

If they do not occur in the same interval of time then it has to be proved that they occur as a plus sign at one point, and as a minus sign at the other, and that, so far as I know, is impossible from the actual facts of industry. Now I think those are the only points raised by Mr. Hawtrey.

I think Mr. Hawtrey and a good many speakers in the hall – not all of them – have assumed that the industrial system is what it was, let us say, at the time of the Scottish banks. The very core of this situation is that the industrial system is not in that condition, that more and more the industrial process is simply a process of power production, and these allocated costs, of which we have heard so much tonight, are really, if you like to look at them that way, the payment of the machine, and the whole question of accounting has to bear in mind that the productive process is very largely a power process.

Now that has a very vital bearing on the question of accounting, this credit process that we have been dealing with, in the National Budget. The National Budget proceeds on this idea. We all know perfectly well – this is quite, I think, beyond dispute – that we are told that the first vital point is to balance the budget. That is a process which is shown there (Diagram 1) of balancing the budget.

Now my contention is that in the first place it is not in the least necessary to balance the Budget, and the second place that balancing the Budget is not a true reflection of the state of things that is taking place; that actual capital values in this country, in the true sense of the word, are even at the present time increasing steadily, and that if financial restrictions were taken off they could be increased very much faster; therefore that you ought to write up the capital values of the country every year, which would mean that you would pay out from the outgoing side of the credit system – whether you consider it allocated in the Bank of England or anywhere else – you would pay out more than you take in. That paying out would represent the increase of capital production, and the taking in would represent the actual consumption.

It is, of course, quite vital and quite fundamental to my views (and to the whole suggestion that you should sell below cost, for instance) that looked at from the true point of view consumption is always much less than production. Under these circumstances you ought to write up your capital costs by the amount of production, and write them down by the amount of depreciation and consumption generally, and that process would be reflected in the Budget. One speaker enquired why I take no notice of the velocity of circulation.

The velocity of the circulation of money in the ordinary sense of the phrase, is – if I may put it that way – a complete myth. No additional purchasing power at all is created by the velocity of the circulation of money. The rate of transfer from hand to hand, as you might say, of goods is increased, of course, by the rate of spending, but no more costs can be cancelled by one unit of purchasing power than one unit of cost.

Every time a unit of purchasing power passes through the costing system it creates a cost, and when it comes back again through the same costing system by buying and transfer of the unit of production to the consuming system it may be cancelled, but that process is quite irrespective of what is called the velocity of money, so that the categorical answer is that I do not take any account of the velocity of money in that sense. That, I think, really concludes the answers to questions. (Applause)

CHAPTER VIII

The Douglas-Robertson Debate Broadcast by the British Broadcasting Company
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MAJOR C. H. DOUGLAS:

There is little doubt, or indeed, difference of opinion, in circles familiar with these matters, that the root of the world's unrest is to be found in the working of the financial system. A glut of goods on the one hand, combined with the capacity to produce still more goods; and an immense unsatisfied demand for goods, verging on poverty, on the other hand, are ample proof that it is the link between production and consumption which is faulty. The link between production and consumption is money. At this point, however, there is a broad divergence of opinion into a school which suggests that the financial system came down from heaven, and is in itself perfect, while only man, and particularly the banker, is vile; and a school of thought, to which I belong, which suggests that man and the banker would have to be a good deal viler than they are to make such a mess of a perfect system as would produce the state of affairs existing in the world to-day. To us the key to the present distresses is in the word "debt," with its converse "credit," and we say that under modem conditions the present financial system automatically creates debts in excess of the power of the public to liquidate them by its outstanding credits.

We know why this is so. The creation of real wealth, goods and services does not create the money to buy those goods and services. Money is created by the banking system in the same way as if it were created by printing bank notes, and it reaches the community as a debt to the bank, unless issued in payment for securities, which constitute the control of capital assets. If I grow a ton of potatoes I do not grow the money to buy a ton of potatoes.

The banking system makes the money, and claims it as its own, and lends it upon its own terms. Since this money will "buy" my potatoes they belong potentially, with everything else, to the banks. The money issued by the modern financial system, with the exception of what we might call "small change," is therefore issued as a mortgage and pays interest to the banking system. If it is a loan, it pays interest directly. If it has been issued in return for the sale to the banks of stocks or shares (since the banks rarely buy anything but debentures or preference stocks) the interest on these stocks also forms a perpetual charge, on the money issued. Not merely the interest on the mortgage, however, but the mortgage itself has to be paid off, and the money value both of the interest and of the repayment of the mortgage can only be collected from the public through the agency of prices or, in the case of Government debt, of taxes. As, a result of this, the general level of prices is too high for the consumer and too low for the producer.

The truth of this contention is proved by the mounting figures of debt, which show that we are not from day to day paying our way, and it is significant that this increase of debt is greatest in times of greatest industrial activity, culminating in a situation which produces what we call a "slump," accompanied by a repudiation of debts both public and private.

Now it is obvious that there is a great difference between a debt which represents the loan of money, laboriously saved through a lifetime of hard work, and invested, let us say, in industrial shares, or in a small business, and the much larger debts which are created by the banking system by writing figures in a book or by printing notes, or lending them. The genuine investments of the public for the most part go to pay off bank loans or costless money which were issued for the purpose of producing real capital in the form of machinery or buildings, and when these loans have been repaid by the investment of the public there is no money outstanding in respect of these capital assets; it has been destroyed by the bank.

The new owners, however, by industrial cost accounting, endeavour to sell the real assets to the public by including them in the price charged for goods and services, and as the money equivalent of these prices does not exist they fail, or, as the phrase goes, "their businesses do not pay."

This portion of the problem, while puzzling, can be shortly stated. The present financial system claims payment in money for the creation of money itself. Since it creates all money, payment in money for the use of money can only be made by creating fresh debt. In addition to this claim by the bank for the use of its money, the industrialist, with much more reason, claims payment for the use of his real plant and, buildings; and he claims it also in money. Neither he nor the banking system, however, recreates the necessary money to enable this payment to be made by the public.

This situation is progressively serious, since modem production is machine or capital production rather than hand or labour production, so that the proportion of wages and salaries to capital charges is progressively less. We have, therefore, two problems to solve: first, to make it possible for the general population to buy the goods which are produced by a diminishing number of people, and an increasing amount of machinery, without going deeper and deeper into debt; and, secondly, to do this by a method which does not require the whole of the population to be employed. Obviously, we do not do this by the dole system, which merely takes away from one part of the population by taxation, a certain amount of money for the benefit of the unemployed, but does not in any way increase the total amount of money.

What are commonly referred to as the "Douglas Credit Proposals" consist of recognition of this situation, and a number of varying proposals designed to meet it. While the principles of these proposals remain substantially the same the proposals themselves are capable of considerable variation, and are, in the nature of things, bound to be somewhat complex.* The main features of these proposals consist in an issue of money, partly devoted to enabling a large reduction of prices to be made, while ensuring a proper return to the producer of goods, and partly by an increasing dividend to every British-born citizen.

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*Major Douglas suggests that readers who are interested in the technical side of the proposals should study the draft scheme for Scottish reconstruction, which can be obtained from various organisations on application to Major Douglas, c/o the B.BC.

These two issues provide the purchasing power necessary to form a demand upon the producing system, either up to the capacity of the producing system to meet it, or until the needs of the population are met, whichever is the smaller, and by their adjustment the new situation created by machine production can be met. There is no more difficulty in creating the money for this purpose than there was in creating the enormous sums of money required to prosecute the European War, which amounted to nearly ten millions sterling per day. It can be done without introducing any features into our financial system, which are novel in mechanism. Since this money would be retired either by its use in purchasing consumable goods, or in the purchase by the public of the securities which represent capital assets, in the same manner that the sale of securities by a bank destroys money, it would not remain as a debt against the public.

Let us tum for a few minutes to the results, which would follow the institution of proposals based upon such principles. Poverty, and perhaps even more important still, the fear of poverty, would disappear forever from this country. At the outset there would a large increase in employment, since the money would be forthcoming to enable purchases to be made from the shops, and those purchases, by emptying the shops, would fill the factories with orders, for goods to replace them. The producer in every grade of life would be assured of a reasonable return for his activities, and, by being delivered from, the fear of the irrational booms and slumps which are caused by an irresponsible and defective monetary policy would be encouraged to employ the best machinery, the best methods, and the best men. As a result of this, we should find quality becoming a more important matter than price. But perhaps the most immediately important effect would be upon international relations, which are a matter more of economics than of what is commonly called “good will.”

The inability of the population of any modem industrial country to buy the goods which it itself produces makes competition for foreign markets the inevitable policy of any Government, no matter what political label may be attached to it.

Since all modem countries are becoming industrialist, it is an impossibility that all countries can export more than they import, and this situation is that which is at the root of modern wars.

By the institution of a modified financial system that would rectify this lack of balance between purchasing power and collective prices, and at the same time remove the economic distress that now accompanies unemployment, this pressure to export would immediately be relieved. This does not mean that foreign trade would cease. On the contrary, it is clear that if we cannot buy the goods we ourselves produce we cannot buy goods, which are exchanged for them at the same price. But the ability to buy our own goods sets us free to exchange goods with other nations on equitable terms. It seems impossible to doubt that such exchange would both take place and would increase, as the progress of the industrial arts enabled all of us to employ more of our time in enjoying the things that we produce, rather than in making them for the purpose of export to undeveloped countries.

You may very reasonably, ask, if the difficulties of the world are in essence bookkeeping difficulties, which they are, why it should be so difficult to alter them. I am afraid that there is only one answer to this. Imagine yourselves possessed of the sole legal right to create money. Would you be inclined to listen to arguments, which would severely modify this monopoly? Probably not. Financial institutions have such a monopoly, and are fighting to retain it. For this reason the first step to a better state of affairs is a wider public understanding of the existence and nature of this "monopoly of credit," as it is called. I am so convinced myself that a majority of bankers, particularly in this country, are themselves only operators of a system which they take for granted, that I have little doubt that public opinion could be brought effectively to bear upon the international minority who may, perhaps, be considered as unteachable.

[For the purpose of drawing the reader's attention to the use of emotive terms by Professor Robertson, which should not be used in a proper logical debate, some of these terms and words have been highlighted with bold type. It is an old trick by those who wish to colour a debate to use emotive descriptions to sway an audience. By way of illustration we can look at the reaction of two people who differ in their attitudes to animals. A cat may run in front of one person and nearly trip him. He might exclaim, "Whoops, look out pussy you nearly got trod on!" Another person confronted with the same situation may exclaim, "Get out of my way you blasted cat!" Colourful language has no place in an honest debate and serves only to highlight the fact that the user is unsure of his or her ground or needs such tricks to support an argument. – Author]

DENNIS ROBERTSON:

> I believe that if Major Douglas and I were to settle down comfortably for a couple of days to discuss these difficult matters we should find that on almost every point raised we started in agreement, but came sooner or later to a parting of the ways. For instance, we agree that banks create money when they make loans to customers or buy securities from the public. But while he looks on this manufacture of money as being necessarily an act of black magic, I look on it as a process which can be carried on in just such a way, and on just such a scale, that the banking system becomes what bankers believe it to be, namely, an instrument for putting the savings of the public effectively at the disposal of industry and commerce. Again, we should agree that this "monopoly of credit," if you like to call it so, gives the banking system a tremendous power over the economic life of the country. But whereas he would infer that this calls for the virtual abolition of banking, as we know it, I should only infer that it calls for a certain measure of control over banking in the interests of the community; and I should be prepared to discuss details as to what parts, if any, of the banking mechanism ought to be in the hands of public or semi-public bodies, and as to whether or no, by this manufacture of money, bankers, in fact, make incomes which are out of proportion to the services which they render, or to the incomes which other people make by the manufacture, say, of soap or of popular songs.

Again, I should agree with Major Douglas that the way in which, in the course of history, the creation of money, the means of payment, has become tangled up with the business of commercial lending and borrowing is very peculiar and in some circumstances very inconvenient. At a time of acute depression like the present the operation of private banking becomes a blunt and clumsy weapon for increasing the flow of incomes and gingering up production and trade; for business men are unwilling to borrow, and those from whom the banks buy securities are often unwilling to use the proceeds of their sales. *Major Douglas, being, like many engineers, a bit of a poet and a dreamer,* is led by this consideration to advocate an ambitious scheme for social credit. *I, being, like most university dons, a severely practical person,* am chiefly led to the view that at such times Governments should reinforce the cheap money policy of the banks by schemes of useful public expenditure. But in principle I am prepared to go a good deal further than that; and I look forward to the time when public opinion, will be much more enlightened in these matters than it is now, and when it will be possible, without fear of undermining confidence, to make much more use than we do now of Government finance as an auxiliary engine to banking policy, by giving money away to people in time of slump and – one must not, I am afraid, forget the other side of the story – taking it away from them by extra taxation in times of overconfidence and over expansion.

Again, while I suspect that *Major Douglas, like many engineers, is prone to exaggerate* the increase in recent years in man's powers of production, I should agree with him that they are sufficiently great to set the system of private enterprise a big problem of readjustment, if it is to be as successful in distributing increased leisure among the people as it has been, on the whole, in distributing increased wealth. But I do not think this problem can be solved by any purely monetary device; and, though I am not myself a Communist, [What was his point? – Author] I have some sympathy with those who reject Major Douglas' proposals because they hold that drastic changes in much more fundamental matters than the mere machinery of credit will be necessary to put things right.

Finally, 1 should agree with Major Douglas that our present international troubles are largely due to the tendency of nations to regard a large export trade as an end in itself, instead of as a means to procure useful imports, whether of goods, services or securities. I want to emphasise these points of agreement, because, whether or not it be true that banks have a monopoly of credit, it is certainly not true that Major Douglas and his followers have a monopoly of discontent with existing arrangements or of bright ideas for improving upon them. Nevertheless, it is no use denying that their programme is based on an analysis which is peculiar to themselves, and which seems to me, and to many people who are not particularly shocked by their practical proposals, completely fallacious.

The point may be put broadly in this way. Most of us think that there are a number of events, which may from time to time produce a hitch-up in the stream of money distributed as income and available for the purchase of the products of industry. As one such thing – I do not say it is the chief one, or that it tells us much of itself unless we know the causes behind it – I would instance an increased tendency on the part of business firms to hoard their profits in the form of bank deposits instead of spending them on plant and equipment.

But Major Douglas thinks that there is an inherent kink in the whole system of production with the aid of bank credit which makes it inevitable that it should misbehave in this way, and impossible that industry should distribute, in the form of incomes, enough money to purchase its own products at remunerative prices. His reason for thinking this is that only part of the costs incurred in any period of time by a producer of final goods, say, a baker, consists of direct payments for wages, salaries and so forth; the remainder consists partly in payments to other producers for raw materials or half-finished goods, and partly in what are called overhead charges.

In spite of repeated demonstrations to the contrary, Major Douglas persists, [A demonstration need not be proof and besides why shouldn't anyone ***persist*** in trying to correct something that they see as wrong? – Author] in maintaining that these other elements of cost are incapable of generating incomes, and that the businessman's attempt to charge a price sufficient to cover them tends, therefore, to a chronic deficiency of purchasing power. So far, indeed, as concerns the payments for raw materials, which he has not mentioned here, I think I detect some signs of weakening in his recent writings. I think it is beginning to dawn on him and his followers that the payments made to-day by the baker to the miller are normally the source out of which the miller recoups himself for the wages he paid yesterday, and puts himself in funds for the wages he must pay to-morrow. Production is a continuous process, and so long as no producer or dealer who forms a link in the chain allows his working capital – that is, his goods in process of manufacture, or in stock – to become depleted there is clearly no reason here for any failure of purchasing power. I hope, as I say, that Major Douglas now realises this; but as regards the overhead charges for buildings, machinery and plant, he is, I gather from his remarks here, quite impenitent. Such charges are, he has recently said elsewhere, "allocated" but they are not distributed.

Whereas, most of us innocently, believe that business men make these charges for the very good reason that they have payments to make, not perhaps continuously, but periodically, for the upkeep of plant and its eventual renewal – payments which generate incomes for other people – Major Douglas seems to believe that they are phantom charges, paid out to nobody and having no real existence outside the ledgers of a perverse system of accountancy. Or, rather, he seems to hover between believing this and believing that they are paid to the banks to extinguish the capital of bank loans. This, no doubt, happens on occasions in individual cases; but if industry as a whole were normally and progressively getting out of debt to the banks in this way, it would be hard indeed to explain how banking could be such a profitable business as Major Douglas believes it to be, or indeed could continue to exist at all.

Now Major Douglas' schemes of Social Credit must be judged not with reference to our general views about increasing consumers' purchasing power in time of slump, but as the logical fruit of this *peculiar* analysis. For he wants to present consumers, not as an emergency measure but permanently, with enough money to bridge the whole of the gap which he thinks he has discerned between the normal total of incomes and the normal total of business costs; [Again we have this misunderstanding between *'business costs'* and *price's. All business costs are not necessarily the final price to consumers unless one includes profits and all other allocated costs, which have not been distributed to consumers – e.g. depreciation. – Author*] and if this gap exists at all, it is, as he himself insists, very large. In my judgement it does not exist, and the adoption of his proposals would therefore be either disastrous or ineffective. If the new money were *dished* out as "consumers' dividends" the stream of expendable money in each period of time would come, sooner or later, to exceed enormously the value, at existing costs of production, of the output produced during the period; and, as all experience shows, no system of price control can prevent such a situation from leading to the most damaging results. If, on the other hand, as I think is sometimes suggested, **the new money is paid over to producers on condition that they do not use it in any way that generates incomes, and that they reduce prices to the level necessary to cover only their direct payments for wages, *etc*.**, [This is a complete fabrication of the correct proposals and is certainly part of Professor Robertson's thinking, as he suggests. – Author] then I am afraid the producers' reply would be, "Thank you for nothing."

For money, which, in Major Douglas' words, "is retired by its use in purchasing consumable goods," that is to say, which must not be employed again by the producer for any useful purpose, is bogus money, and its receipt would be cold comfort to the producer who has very real and concrete payments to make provision for.

In conclusion in order that you may have material for judgement I should like to ask Major Douglas three plain questions. First, does he or does he not now agree that payments by one producer to another for raw materials are an essential link in the chain that generates incomes, and that the making of such payments does not therefore normally give rise to any deficiency in purchasing power? Secondly, does he or does he not still maintain that industry as a whole, over considerable periods of time, makes book entries for overhead charges which are enormously in excess of its disbursements for interest and dividends and for maintenance, renewal and extension of plant? Thirdly, does he or does he not hold that deficiency of purchasing power arises partly because industry as a whole is normally and progressively repaying its capital indebtedness to the banks? And if this is the fact how does banking continue to be such a profitable business, as he believes?

MAJOR C. H. DOUGLAS:

I have considered Mr. Robertson's reply with the closest attention. I cannot find in it even an attempt to meet the arguments, which were raised in my opening remarks. If 1 am not misrepresenting him, he agrees with me up to a certain point, but at this point he very kindly makes a completely new speech on my behalf, which consists, 1 think, of his own interpretation and paraphrases of certain matters with which I have dealt in my books, and, in a simpler form, here. He then expresses his disagreement with his own paraphrases. I do not think that I can be expected to accept this as an answer to my arguments.

He finally asks three questions. The general and, I believe, irrefutable answer to these questions is contained in my opening explanation of the working of the financial system. I should be delighted to answer the questions in the form in which he puts them, but not in five minutes, and not to the exclusion of comment on certain of his statements. He kindly suggests that, like many engineers, I am a bit of a poet and a dreamer, while, like most university dons, he is a severely practical person. I would remind him that the dreams of engineers generally come true.

Engineers have been responsible for most of the technical advances of the past century, while the business system, and its severely practical persons (of whom I should not, of course, myself suggest that Mr. Robertson is one) are suspected of causing most of our present difficulties.

I think he does himself injustice when he contemplates quite definitely a succession of booms and slumps as an inherent feature of industry to he met by alternate gifts of money or punitive taxation. 1 see in this evidence that there is something about distributing more money, even if more goods to buy with it exist, which terrifies many people. Mr. Robertson does not specify the more fundamental matters in which changes are required, and I will leave it to listeners to decide whether, while more weighty matters are adjusted, they would appreciate relief from the risk of poverty in the midst of plenty.

He suggests that I call for the virtual abolition of banking; I should be interested to know the authority for this statement, and also for the statement that I am prone to exaggerate the increase in man's powers of production. There is a suggestion, I think, that I am attacking the money profits made by banks. I have never done so, because I do not regard the matter as important. I regard the money system as properly nothing but a ticket system, and if banks or even bankers actually used their share of tickets to absorb production there would be less ground for criticism. They cannot do this, and consequently are driven to finance unsuitable products. Mr. Robertson suggests that money, which is retired by its use in purchasing consumable goods, is bogus money. I should retort that practically all money used in purchasing consumable goods is in fact retired, together with a good deal used in purchasing nonconsumable goods. The former is correct, but the latter is not.

My own feeling as to the real divergence between the orthodox economist and the engineer is that the orthodox economist cannot see any difference between the single stage production of two hundred years ago and the present power production system, and never quite makes up his mind as to whether the money system is a system of government or an accounting system.

DENNIS ROBERTSON:

I'm afraid Major Douglas feels a little aggrieved that in commenting on his proposals I have felt obliged to go outside his rather vague opening statement here, and to draw also on the more definite accounts which he has given of his theory in his published writings. I had to do that, because, as I have said already, his scheme must be judged, not as one among many emergency devices for increasing purchasing power in trade depression, but as the logical outcome of a peculiar theory about the existence of a chronic gap between costs and incomes; and unless you had had the broad outlines of that theory brought before your minds, it would not have been fair to ask you to form a judgement on the practical proposals which grow out of it. I hope that those who have read Major Douglas' works will agree that I stated that theory, in the few minutes at my disposal, as clearly as it can be stated. It cannot be stated perfectly clearly, because it contains a fundamental muddle, and because it is impossible to pin Major Douglas down to an exact statement as to what happens to the costs or charges which, according to him, are entered up by accountants in their books, but are never distributed as incomes to any individual. I am very sorry, though I realise that the time at his disposal was very short, that he did not think it worthwhile having a shot at answering even one of my three questions, which I assure you are the essence of the whole matter.

My reason for suspecting that Major Douglas exaggerates the increase in man's powers of production is that, if he did not, he would see that *the continuous dishing out of money on the scale which he proposes,* [There it is again – "dishing out". What scale did Douglas propose? – Author] would before long take up the slack which at the present moment admittedly exists in the shape of unused labour power and plant working below capacity, and generate a tremendous inflation. The only thing, which could prevent this, would be if the money were issued direct to producers in consideration of a reduction of prices, and were in some way sterilised so that the producers could make no use of it.

> In that case it would, as I have said, be bogus money and unacceptable, and the scheme would never come into operation.
>
> I don't want to suggest that Major Douglas thinks that bankers and bank shareholders get excessive profits, though I should not be in the least shocked if he did. But if he is right, the banking system as such, through no fault of those who operate it, is a public nuisance, so that any profits made by its operation are in a sense excessive. And if his scheme really enabled producers to obtain, without recourse to the banks, all the money they need to meet all their costs, except direct wage and salary payments, banking would become so nearly superfluous that I do not think the phrase I used, "the virtual abolition of banking as we know it," is too strong.
>
> When I heard Major Douglas declare that if his proposals were adopted poverty and the fear of poverty would disappear for ever from this country, I felt as sorry as I should if I heard somebody who set up as a medical expert make the same claim about disease. For I believe that his assertion that the difficulties of the world are in essence mere bookkeeping difficulties, which he knows how to solve, has done much harm in spreading false ideas and raising false hopes in the breasts of many sincere and well-intentioned people. [*The Listener* – June 28, 1933]

Mr. Robertson raised a number of questions in his talk, which he expected to be answered in a period of a few minutes. This was quite an unreasonable request, given the complexity of the subject and the amount of criticism that surrounded it based on either intentional misrepresentation or unintentional misunderstanding of the arguments put forward by C. H. Douglas.

However, Douglas was not one to shy away from such challenges and did reply to Mr. Robertson's questions. The questions and his reply were subsequently published in the *New Age* and again in *The New Economics,* September 1, 1933, and are reproduced here.

QUESTIONS IN WIRELESS DEBATE

Major Douglas Answers Mr. Dennis Robertson

On June 21 a debate was broadcast between myself and Mr. Dennis Robertson, M.A., on the subject of the Douglas Credit Theory, the title being chosen by the B.B.C., and the conditions of the debate being also laid down by them as a fifteen-minutes opening by myself, a fifteen minutes reply by Mr. Robertson, a five minutes rejoinder by myself, and a five minutes closing by Mr. Robertson.

In order to deal with a complex subject of this character in the time allowed it was, of course, necessary to reduce it to its simplest possible terms, and only those matters which were essential to an understanding of the situation were included by me in the opening statement.

Mr. Robertson, however, either did not wish or was unable to answer the arguments in the simple form in which they were put forward in this statement, and devoted the critical portion of his reply to an attack upon the theory in its more elaborate, and therefore, also much more complex, form, and, being, as he put it himself, "a severely practical person," concluded this reply by asking five questions on the more complex aspects of the theory, referring to them as "three," and asking for an answer in five minutes.

As there are a number of statements in Mr. Robertson's reply, to deal with which five minutes was inadequate, entirely apart from these questions, it was only possible to express complete willingness to answer them in their more complex form, and again to draw attention to the fact that the answers were in effect contained in the fundamentals which were exposed in the opening statement. Mr. Robertson's five questions were as follows:

> (1) Does he (Major Douglas), or does he not, now agree that payments by one producer to another for raw materials are an essential link in the chain that generates incomes?

(2) That the making of such payments does not therefore normally give rise to any deficiency in purchasing power?

(3) Does he or does he not still maintain that industry as a whole over considerable periods of time makes book entries for overhead charges which are enormously in excess of its disbursements for interest and dividends and for maintenance, renewal and extension of plant?

(4) Does he or does he not hold that deficiency of purchasing power arises partly because' industry as a whole is normally or progressively repaying its capital indebtedness to the banks?

(5) If this is the fact, how does banking pay?

These questions imply clearly that the answers which I should give to them would not meet with Mr. Robertson's approval. In an editorial in the "Listener" of June 28, in which the debate is fully reported, it is stated that my proposals contain a set of propositions which have not yet secured as their champions a single prominent economist of recognised standing. If by this latter statement is meant that no recognised orthodox economist of first-rate standing is in agreement with my views, then I may say at once that this is quite incorrect. I could name without difficulty six such economists, but obvious considerations prevent my doing so.

It would be absurd to suggest that the disagreement, of which on this occasion Mr. Robertson is the protagonist, is not a real and honest disagreement in some cases, and in order to understand how there can be a disagreement of so radical a character on a matter to which attention has been devoted by men of average intelligence, it is necessary to assume, I think that there exists on the part of the orthodox economist a special way of looking at things, which appears to him to cover the facts and which is not the way, for instance, that I, and those with me, look at things.

I have no doubt that this orthodox theory is one, which may be called the "uniform circulation theory." Let us suppose a community consisting of ten businesses, each of which distributes £1 per week in wages to one man, and that no other factors are involved. The cost of each of these businesses would be £1 per week. £1 per week will be distributed by each of them, and provided that the product is bought in the same week, whatever they produce can be bought at cost by those who are employed by the business. If nine of the businesses produce intermediate products and the tenth alone produces consumable products, all the money will have to be collected from the public by the tenth business, *i.e.*, £10, and paid as to £9 to the ninth business, which in turn wil1 pay £8 to the eighth business, and so on . . . .

If there were no other factors involved, it is quite clear that such a money system would work indefinitely. That is Mr. Robertson's theory.

But now let us suppose that each one of these businesses adds 10 per cent to its *price* over and above the sum that it distributes in costs. Business No. 1 will charge business No. 2, 22 shillings for its product. Business No. 2 wil1 charge business No. 3 44 shillings for its product, and so on. Eventually the product will arrive at the tenth business priced at £11. Now it is, of course, apparent that the sum of prices *actually realised by the sale of products* is exactly equal to the amount of income applied to the purchase of that product. If the whole of the ten recipients of wages applied the whole of their earnings to buying *what they can* of the product they will be able to buy ten-elevenths.

This is where the continuous-process-continuous-circulation theory comes in. Mr. Robertson would, no doubt, say that the amount of money in circulation is £11 and not £10; with the result that each of the ten firms concerned is distributing 10 per cent. in dividends. The sum of these 10 per cents. makes up, the extra £1. This answer, of course, evades the issue and does not explain how the £10 becomes £11 or how it is possible ever to start a new business without running an old one.

Businesses do not *begin* by distributing the money to pay their own profits. But fortunately the question is one which can he referred to fact, as apart from theory.

I have before me the balance-sheet of a fairly successful industrial company, which I have picked up at random. I have no doubt that it would be easy to find a balance-sheet more favourable to my case, but this will do. It is audited by the most famous firm of auditors in the world. Turning to the profit and loss account I find the following entries:

By trading profit for the year, *after* providing for bad and doubtful debts and depreciation of plant; also income from trade and general investments and dividends from subsidiary companies	£302,085 18s. 9d.
" Balance of profit from 1931	£372,155 9s. 0d.
" Balance of profit for 1932	£291,449 16s. 6d.
Total	£663,605 5s. 6d.

As against this I find the following entries:

To Dividend on Cumulative Preference Shares	£ 55,000 0s. 0d.
" Interim Dividend of 2 1/2 per cent. on Ordinary Shares	£ 61,250 0s. 0d.
" Interest on Debenture Stock	£ 27,675 0s. 0d.
" Redemption of Debenture Stock	£ 39,764 0s. 0d.
"Balance carried to Balance Sheet	£479,916 5s. 6d.
Total	£663,605 5s. 6d.

From this it will be seen that of an allocation of £302,085 18/9 (which amount is really probably much increased in connection with the phrase "after providing for bad and doubtful debt and depreciation of plant) only £143,925 is redistributed, and it is highly probable that a good deal of this sum is paid to banks, who again absorb in invisible reserves a large part of it, since, although the dividends of banks are high, they are made upon a comparatively small capital, while money paid to banks in redemption of debentures is automatically cancelled. Notice that ***only one allocated component*** of price, *i.e.*, profit, is dealt with in this account.

Now the business in question is one which does not sell its product to any considerable extent direct to the public. Its receipts, therefore, come under the designation of payments from one organisation to another, and it will be seen that the debts created to it are considerably in excess of its disbursements to the public in the same period of time. Yet ultimately it is to the public alone that it must look for payment of all these debts, plus any additional profits, if it is to remain solvent. We are now, therefore, in a position to deal with Mr. Robertson's first question, and the answer to that question (No.1) is (a) Payments by one producer to another for raw materials are not an *essential* link in the chain which generates incomes, because they can be eliminated by the amalgamation of businesses carrying on successive production processes, and because no *incomes* whatever are *generated* by manufacture; (b) the payments involved in transactions between one producer and another do not *distribute* incomes which are, equivalent in the same period of time to the prices which are generated by the same process. And the answer to his question (No. 2) is that the making of such payments *does* normally give rise to a deficiency of purchasing power.

I should like to make it clear that there is a great deal more to be said in regard to this question of payments from one organisation to another than is said above. I have said a great deal of it elsewhere. I am endeavouring to answer Mr. Robertson's questions, 'qualitatively and not quantitatively', in as nearly the five minutes which I was allowed, and I have some hopes of doing it in fifty-five minutes.

When we approach Mr. Robertson's question No. 3 we obtain, I think, evidence of his failure to understand the nature of the modem multistage production system. This question reads: "Does he (Major Douglas) or does he not still maintain that industry as a whole, over considerable periods of time, makes book entries for overhead charges which are enormously in excess of its disbursements for interest and dividends, and for maintenance, renewal and extension of plant?"

It is obvious from the form of this question, I think, that Mr. Robertson is not aware of any difference between cumulative disbursements of money, and successive disbursements, and receipts of a smaller sum of money, or to put the matter another way he would appear to believe that every time an industrial undertaking buys a new machine it at once charges the total cost of that machine in the price of something which it is making in the ***same period of time***. Now I have no doubt that every manufacturer would like to do this, the net result of which, on his accounts, would be that his real assets in his balance-sheet would be written down to nil, and he would require to make no charges for the use of his plant. But if Mr. Robertson supposes that such a course is possible over any wide range of production, then I can only suggest that he devote a little time, to a discussion of the matter with some representative manufacturing or agricultural association.

What the manufacturer does, *if he can*, is to charge off the machinery as quickly as possible, but as he does not charge it off at the same rate at which it is paid for, it ought to be clear that the sum of these deferred charges is carried over from one period into a successive period, and is not represented by disbursements in that period. The large and increasing number of hire-purchase schemes are based on this situation. The answer to Mr. Robertson's question No. 3, therefore, is that over the ***same period of time*** industry as a whole ***does*** make book entries for overhead charges which are in excess of its disbursements for interest and dividends and for maintenance, renewal and extension of plant.

Question No. 4. "Does he (Major Douglas) or does he not hold that deficiency of purchasing power arises partly because industry as a whole is normally or progressively repaying its capital indebtedness to the banks?" The qualitative answer to this question appears to me to be so simple that I am surprised that Mr. Robertson should ask it. If we imagine production to be carried on by one organisation, and the money which is the equivalent of the price of that production to be created by a second organisation (*e.g.*, a bank), and this money creating organisation lends its money to the goods-creating organisation, it is obvious that the repayment to the money-creating organisation of the sum in question will leave a body of goods unrepresented by purchasing power. If this body of goods has reached its final destination – the ultimate consumer – it is arguable that the repayment and destruction of the money is correct in principle, although it would be more accurate to say that the money should only go out of existence at the same rate as that at which the goods physically disappear.

But since the great majority of goods produced in a country such as Great Britain are, at the present time, capital goods, they are not sold direct to the ultimate consumer, but are sold to an intermediary who again resells them, through the agency of machine charges, to the ultimate consumer. The repayment of a bank loan, which relates to such capital goods, before the capital goods have been completely written off, so that no further charges are made to the public for the use of them, *does* create a deficiency of purchasing power, and the answer to Mr. Robertson's fourth question, therefore, is that a deficiency of purchasing power does arise partly because industry as a whole is repaying its capital indebtedness to the banks at a faster rate than the capital goods to which it refers are being charged off through the collection of their full value from the public.

Mr. Robertson's final question, No. 5 is: "If this is the fact, how does banking pay?" I could explain this subject at some length, but as I find it difficult to believe that Mr. Robertson can be serious in asking such a question I will merely refer him to the

Encyclopaedia Britannica, 14th edition, in which he will find the statement "Banks lend money by creating the means of payment out of nothing." The answer to Mr. Robertson's fifth question, therefore, is that banks pay by creating the means of payment.

It has been demonstrated within the past few months that it is possible to conduct a debate on these important subjects without recrimination, and to the real enlightenment of everyone concerned. I am sorry that in the last five minutes, at least, of Mr. Robertson's criticism, as well as in certain written comments on my views, he has not felt it desirable to maintain the standard to which I have referred, and, in consequence, his concluding remarks appear to me and many of his hearers, to be undiluted claptrap. To compare a state of affairs in which, by common consent, there is a physical abundance existing alongside widespread poverty with a state of affairs in which a medical expert is faced with the problem of eliminating disease may conceivably be good yellow journalism, but it is certainly not argument, or even analogy. No one has ever suggested, to my knowledge, that there is any physical difficulty in immensely increasing the present output of goods and services as well as preventing the existing waste of many that are so produced, although every child is aware that the elimination of disease is not immediately practicable. Even Mr. Robertson's own arguments merely suggest that something would happen to the *money* system as a result of this immense increase of production, which he calls "taking up the slack."

1 am conscious of the handicaps under which Mr. Robertson, and others in his position, work, in dealing with questions of this description, but before using phrases such as "bogus money" and "fundamental muddle," I think he ought to realise that it is the existing system and the experts associated with it, of whom he is one, who are on their defence, and that no suggestions have so far been put forward from official sources, which in any way traverse the arguments which I advanced to him, and which he has not met. (Concluded)

CHAPTER IX

During 1933 there were many articles written apart from books that were published, most of which covered the same ground over and over and was constantly refuted by Douglas. Books that some publisher's thought provided a definitive discrediting of Douglas's writings were often reviewed favourably. No doubt the publisher was chosen for this reason. It still remained a task for Douglas to question some of these and place on record a correction.

One of these books, published in 1933 (Jonathan Cape) *Purchasing Power And Trade Depression – A Critique of Under-Consumption,* by E. F. M. Durbin (Sometime Scholar of New College, Oxford, Assistant, London School of Economics), was reviewed in the *Times*. It should be remembered that The London School of Economics was endowed by and contained protagonists involved in earlier efforts to distort and contain the principles being enunciated by C. H. Douglas.

One interesting point that should be noted by those who may be concerned with truth is the title of the book that contains the rider *A Critique of Under-Consumptionist Theories*. There is a vast difference between underconsumption because of overproduction, and underconsumption because of insufficient purchasing power to purchase production of any quantity. If production is rated at let's say 100 and people *choose* willingly to buy only 80, even though they have sufficient money to buy 100, then it may be claimed to be underconsumption. If production is 100 and people want the 100 but have the ability to buy only 80 then this not underconsumption but lack of purchasing power.

Mr. Durbin like other antagonists of Social Credit at that time invented their vocabulary to suit their own fallacious reasoning. First distort what Douglas was saying, then attack that distortion and claim that Douglas has been "discredited".

As with Mr. W. K. McConnell, Mr. Durbin is included in this criticism because he is still being quoted by current economists as one who has "discredited" Douglas. Mr. Durbin included an Appendix in his book entitled "*THE VIEWS OF MAJOR DOUGLAS AND CERTAIN OTHER GENTLEMEN*". A footnote to the title explained, "This short essay is to be published under a different title and with slight modification as a pamphlet by the New Fabian Research Bureau." Below is an extract from that Appendix that deals specifically with Major Douglas. The second sentence, which is blatantly untrue will provide readers with the knowledge of the extent to which the truth can be distorted to gain recognition and the basis on which his "discrediting" may be viewed. Mr. Durbin or any of his latter day followers can not substantiate such a ridiculous claim that Douglas said, "maximum efficiency is to be obtained by a regular and enormous expansion in the supply of money . . . ."

Appendix

Purchasing Power And Trade Depression – A Critique of Underconsumption

By E. F. M. Durbin

> Now there is a Policy which is commonly advocated which is both mistaken in its proposals and which grossly exaggerated the advantages which any policy can make to the degree of our productive efficiency. I refer to the views of Major Douglas. Major Douglas holds that maximum efficiency is to be obtained by a regular and enormous expansion in the supply of money and that such an expansion will secure an equivalent growth in the total product of industry:
>
> > If we assume that an overall industrial efficiency of 75 per cent is attainable (by which we mean 75 per cent of the output possible with a given number of man-hours, working on a given plant, might be obtained and distributed), and we also assume, as is the case, that the United States is able to produce all she wants by working at the low efficiency quoted by Mr. Gantt, *then without working harder, she could, under proper conditions, produce the same amount by*

> *the same number of persons in one-fifteenth of the time they now work* (italics ours) – *i.e.*, about thirty minutes per day instead of about eight hours, or by one-fifteenth of the present number of persons working the same hours. As the economic distribution stands at present, such a condition of affairs is impossible of attainment, because, although the goods would be produced, the purchasing-power to buy them would not be distributed. The enormous increase of sabotage of all descriptions which is the outstanding feature of contemporary industry is due to the blind effort to equate purchasing-power to production without altering the principles of price-fixing.
>
> C. H. Douglas, *Credit Power and Democracy,* pp. 16, 17]

Such views grossly exaggerate the benefits which can be derived from the right credit policy. As we have seen, the maximum advantage, which can be obtained is measured by the average amount of unemployment, which appears in the existing economic system, that is of the order of 10 per cent. Major Douglas suggests that the figure is nearer 1500 per cent. This is clearly a ridiculous conclusion. Where does the error lie?

Major Douglas starts from the very sensible position that the economic system cannot work smoothly unless consumers possess sufficient purchasing power to buy the whole product of industry at a price which will cover cost of production. The costs of production are, however, made up of payments, which pass directly or indirectly into the hands of consumers. Wages, which are a cost of production to the producer, pass into the hands of the workers who are consumers. Rents pass into the hands of landlords, and all salaries and profits are received by some person who is a consumer. Even when a payment is not made directly to a consumer, but to another producer as for example when a baker buys his flour, it will come into the hands of a consumer in the end. Since the second producer, or the third producer in the sequence, must pay the people whose labour or property *he* employs, and they are consumers. There is therefore a fundamental tendency for consumers' receipts to be equal to the costs of producing final products.

But, of course, many of these payments are not made directly to consumers. Some of them must pass through ten or a dozen hands before they reach final consumers. When a car is bought, payment is made to cover the cost of mining the iron ore which was used for the cylinders of the car, but before this payment reaches the consumer who produced the steel, it will have to pass through the hands of the retail merchant, the wholesale merchant, the manufacturer of cars, the manufacturer of the finished steel, the smelter of the original ore, the owner of the mine which raised the ore, before it reaches the ultimate consumers who work in the mine. In any advanced economic society there is bound to be a large number of payments between producers before the cost of the final product accrues to consumers. It is upon this feature of our present economic system which Major Douglas focuses his criticism. Consumers, he argues, must have enough money to make all these payments unless prices are not to fall short of cost. Here is the central passage of Major Douglas's work:

> In order to see that this is so it is necessary to restate in general terms an argument which has been dealt with elsewhere in detail (*Economic Democracy*). *A* factory or other productive organization has, besides its economic function as a producer of goods, a 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 organizations (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 product of any factory*

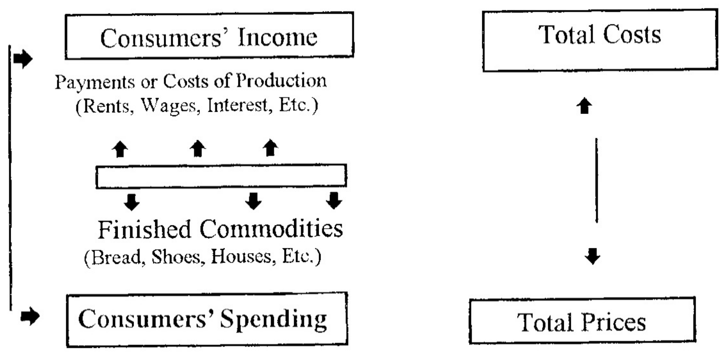
> *may be considered as something which the public ought to be able to buy, although in many cases* it *is an intermediate product of no use to individuals but only to a subsequent manufacturer; but since A will not purchase A + B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the descriptions grouped under* A. (*op. cit*., pp. 21-22 . The Italics are Major Douglas's.)

This is a critical argument. If it is true, as Major Douglas claims, the consumers' income must cover all the payments between producers, then all that he says must follow and all his proposals for credit extension will be sensible. But if the argument is wrong, most of what he says will fall to the ground, and I claim that it is clearly wrong.

In the first place, we have only to imagine that it is true, to see what an amazing conclusion would follow. Major Douglas seems to imagine that his Group B payments – payments between producers – is only a small fraction of total payments, while in fact it is an enormous proportion of them. It is calculated that payments between producers are roughly nine times as great as payments to consumers in Great Britain, and over eleven times as great in the United States of America. If Major Douglas is right, the consumers' incomes should be multiplied by 9 times or 900 per cent. Of course, everyone knows that this would mean a gigantic inflation, which would send prices shooting to the skies and disorganize the whole of production for the whole period in which the policy was pursued.

In the second place, it is not difficult to find the mistake which Major Douglas has made, the fallacy contained in his reasoning. Of course, it is not necessary that the consumers should have enough money to cover the payments between producers, because they are made at later stages of production, at a time when the money spent on finished products has had time to stream back from the last stage of production. All *that is necessary is that consumers should have enough money to pay for the immediate costs of producing* *consumption goods, and this they will have as long as no money is held up in the movements through the economic system.*

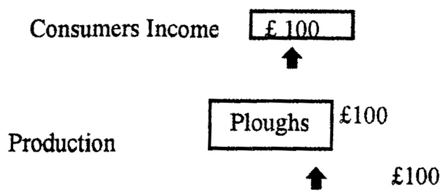
The mistake which Major Douglas made and also the main position can best be explained by the aid of some diagrams. If the economic system were managed as one commercial unit in which there was only one financial control which employed all the factors of production and sold all the final products, then it would be perfectly plain that consumers' receipts were equal to the total costs of production since there would be no other costs than the payments which the single concern was making to people whose labour and property it employed. And it would naturally follow that if they spent all their money on the finished products of the single trust, the trust's receipts would he exactly equal to its costs of production. Such a simple condition can be expressed in this diagram:



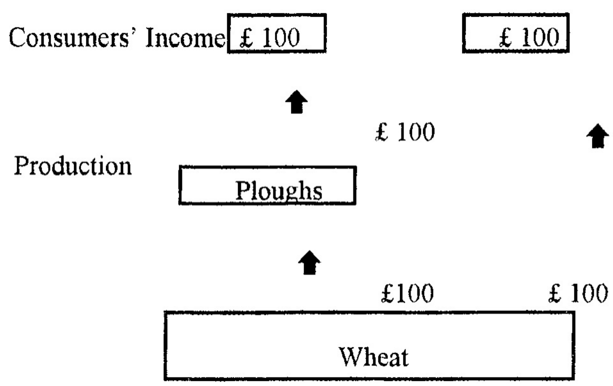
In such circumstances it is plain that the income of consumers is exactly equal to the total costs of production, since they are the same payments, looked at from two different points of view; and as long as the consumers spend the whole of their receipts the producing system received back in exchange for its products just as much as it paid out in costs. This simple monetary circulation can then continue forever. But, of course, the existing system is not as simple as this, and Major Douglas's argument is concerned with the more complex system of the real world.

Now the important difference between this simple system and the real world is that in the real world, the various technical stages in production are under different financial managements so that the product in the course of its technical production is exchanged against money more than once. Let us take the production of bread as an example of this difference. Under the simple system in which the consumers' income provided by the production of bread is equal to the total costs in all stages of production, these stages, the production of flour, the production of wheat, and the production of all the necessary ovens, mills and ploughs, would all be under one management which would pay all the bakers, millers, farmers and all the wages, rents and interests, which were incurred in the complex course of production.

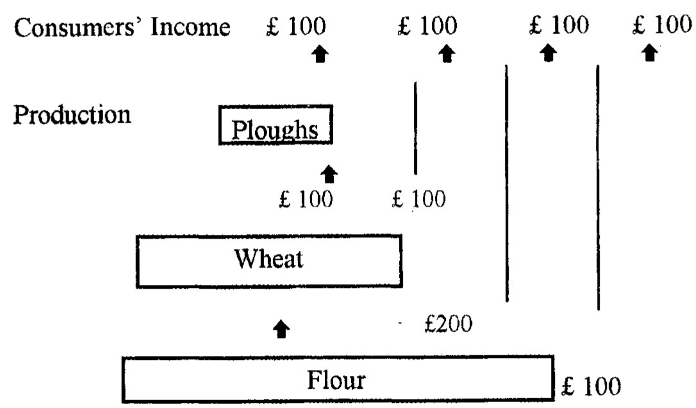
It would then necessarily follow that the income which this one producer provided and his total costs of production would be equal since there are no other payments in the system except those between producer and consumer. But in the real world, the production of bread is under the control of one producer, the production of flour under another, the production of wheat under a third, and that of ploughs under a fourth; and as a result there will be an entirely different type of payment – the payments between these producers which are necessary to bring the product of each stage into the next stage. Now what difference does this make to the relation between consumers' income and the total costs of production? Let us assume that all six of these producers pay an equal sum of money per week in wages and capital charges to consumers and that each producer buys the product of the previous stage. Then the whole technical system of production can be built up into the following diagram: The producer of ploughs employs labour and capital directly and pays £100 a week, shall we say, directly to consumers thus:



The producer of wheat, who is the next producer in the sequence, buys the ploughs and also employs labour and capital to the tune of £ 1 00 a week, so that his costs are £200 a week – which are met by the sale of wheat thus:



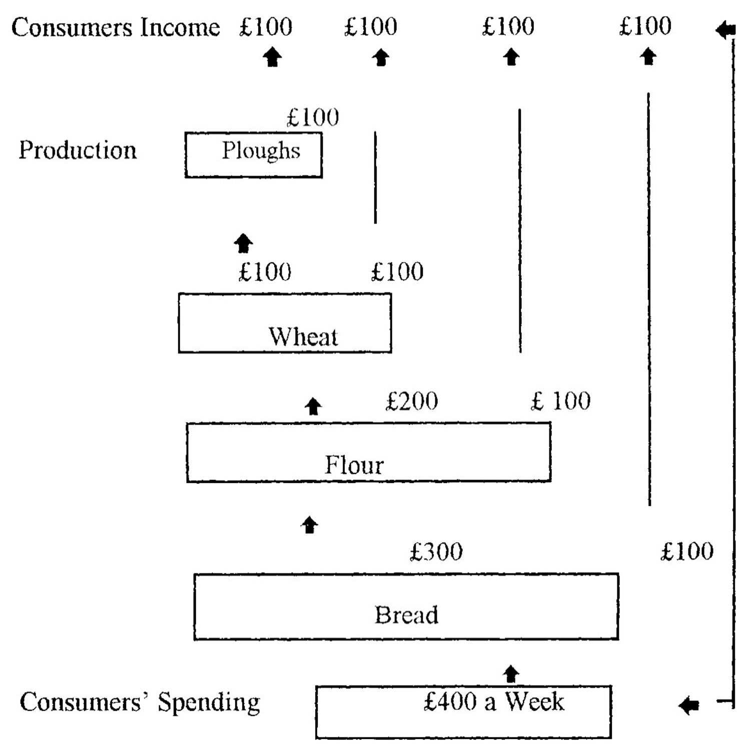
In the same way the miller buys the wheat at £200 and employs labour and capital to the tune of £100 a week, so that his total costs are £300 a week which he receives as follows:



Finally the baker buys the flour at £300 a week and employs labour and capital at £100 a week, so that his costs are £400 a week (as in next diagram).

This is the last stage in production, and the bread must be bought for £400. From where is the money to come? It can only come from consumers. Can the consumers provide enough? To do so they must be able to spend £400 a week. But an inspection of the diagram, and the simple reflection that four producers are each paying consumers £100 a week will serve to show that their income is just £400 a week. If then they spend all that they receive they will make the price of the finished product just equal to its cost of production, and the system can maintain itself in a state of continuing production.

This is the true circulation of money in an advanced economic system.



The nature of Major Douglas's mistake should now be plainly apparent. He is perfectly right in arguing that the consumers' income is necessarily less than *the total cost of producing everything*. In my example the total cost of producing bread, flour, wheat and ploughs is £400 + £300 + £200 + £100 = £1000 a week. But where Major Douglas is wrong is to go on to say that consumers' income ought to be equal to these *total* costs. [Mr. Durbin would be closer to the mark if he used the words *Total Prices generated in the same period of time*. But then such critics have never found it necessary to be absolutely correct in their quotes. – Author.] It is quite impossible that it should be. If it were to become so for a moment, the most enormous inflation would have to take place. But it is necessary that consumers' income should be equal to the cost of *producing finished commodities* – the cost in the last stage of production. And this it necessarily is as long as no money is held up or hoarded in the general system of industry.

> In our particular example the cost of producing finished articles is £400 per week and the consumers' income is £400 per week. As long as the consumers spend this income all will be well. In the last stage of production the costs will be £400 a week, of which £100 a week will go back to consumers and £300 a week to the purchase of flour. In the production of flour, £300 a week will be divided between £100 a week to consumers and £200 a week for wheat, and finally the £200 a week will be divided between consumers and ploughs, and all the stages will be solvent and the circulation of money will continue. Major Douglas's proposals would merely involve a large, continuous and disastrous inflation.

There are many fallacious arguments and statements in Mr. Durbin's article and it would be superfluous to discuss each and every one. To any student concerned with truth and having researched Social Credit and the principles articulated by C. H. Douglas, the major flaws in the above article would be apparent inasmuch as Major Douglas provides an answer to these flaws. The major problems with Mr. Durbin's article would become apparent. In the correspondence that follows, the problem would appear to be that Douglas's critics did not read his material, or if they did they could not understand it. The worst transgression by his critics is the continual misquoting of what he actually said or wrote.

The reasoning contained in Mr. Durbin's criticism was, interestingly, the same as that used in the Report of the Royal Commission appointed to inquire into the Monetary and Banking Systems operating in Australia in 1936. There is a complete lack of understanding of the correct operation of the financial system with respect to the time lag and the many other factors that enter into the process. The simple theoretical explanation by way of the diagrams as shown indicates a very childlike approach. If this cannot be accepted it must follow that the critics who were regarded as "experts" deliberately misinterpreted, misquoted, and mislead others in their attempt to denigrate C. H. Douglas for reasons other than simple "economics".

CHAPTER X

In 1934 The Rt. Hon. Thomas Johnston, P.C., ex Lord Privy Seal published a book, *The Financiers and the Nation*. Sidney Webb wrote the preface of the Book. The objectivity of his article on "The Douglas Scheme" in the book by Johnston can be examined dispassionately against the contents of Douglas's *These Present Discontents and The Labour Party and Social Credit*. This booklet published by Cecil Palmer (London, 1922) contains an exposé on the attempt by a committee set up by the Labour Party to report on what it chose to refer to as the "Douglas-New Age Credit Scheme".

In an opening statement Douglas comments,

> It is an important Report, not as containing any contribution to the solution of the problems with which it purports to deal or as advancing any valid or competent criticism of the principles or details of Social Credit, but rather as a concrete instance of the defective working of the Labour Party organisation; defective, that is, in the sense that the aims of the rank and file and the Central Executive have not as much in common as those of the Central Executive and their alleged adversary the "Capitalist".

It also contains the correspondence between Douglas and the Labour Party, which indicates quite clearly the make up of the Committee and the expectation of the subsequent "findings" of the Report. Sidney Webb of the Fabian Society was a Committee member. Sidney Webb was the ostensible founder of The London School of Economics with the financial backing of Sir Ernest Cassel to the extent of half a million pounds, not an inconsiderable sum for those days, and certainly not in the bounds of the "workers" the Labour Party was supposed to represent.

Perhaps Sidney Webb was cut by the remarks of Douglas. This is of course unknown, but his objectives were contrary to those proposed by Douglas as were those of Sir Ernest Cassel, a policy partner (he may have been a business partner) of Jacob Schiff who subscribed millions in gold to bring down Imperial Russia.

The rights or wrongs of Imperial Russia are not herein a subject of debate but the connection between Webb and Cassel highlights the comment by Douglas on the commonality between the Central Executive of the Labour party and the rank and file.

In discussing Douglas in his book *The Financiers and the Nation* Thomas Johnston very conveniently fails to mention either Webb or Cassel. Apart from the preface by Webb, there is no other mention. However, the reader can ascertain the truth or otherwise of his remarks particularly in relation to what he describes as “the Douglas proposals”. No interpretation is presented here. The following is a direct quote.

(A) THE DOUGLAS SCHEME

> The Scheme for supplying social credit to consumers, propounded with gathering enthusiasm by the followers of Major C. H. Douglas, ought to be impartially examined.
>
> Unfortunately Major Douglas has seen fit to recommend his scheme to the opponents of the Labour Party as a barrier to the Labour Party’s Socialist programme, and naturally, therefore, his scheme stands heavily prejudiced in the eyes of vast sections of the working classes. In the *Nineteenth Century Magazine,* for example, March 1925, Major Douglas declares that a grasp of his proposition ‘is the most formidable menace to orthodox Socialism with which that doctrine can be confronted’. But it would not appear as if Major Douglas has attracted thereby any countervailing support from the bankers and their political friends. Indeed, politically he seems rather to have contrived to make the worst of both worlds.
>
> His proposal – if one may attempt a brief bald summary of it – is that the steadily increasing productivity of the nation should reach the citizens in the form of a direct dividend from the State.

Having received their social credit dividend tickets (there is to be a close actuarial estimate of the amount of the increased production of goods during the year) the consumers take their tickets to the shops; the shopkeepers then reduce their prices of the goods sold by the amount of the social credit tickets which the customers hand over to them; and these social credit tickets will in due course reach the Bank of England where they will be cancelled – simply written off – at the order of the State.

The theory is that this increase in consuming power will not involve inflation of the price of commodities, because there has been in fact a reduction in price at the point when the shopkeeper sold the goods, and this reduction is passed up through wholesalers and manufacturers until it reaches the Bank of England.

The shopkeeper reduces his payment to his wholesaler by the amount of his social credit tickets: the wholesaler similarly reduces his payment to the manufacturer by the amount of his social credit tickets: the manufacturer gets credit at his bank for his tickets: and the bank gets credit at the Bank of England for the tickets it hands over. What has occurred is that an increased purchasing power in a given period has been passed on to the consumer, and through the consumer's increased demand for goods has stimulated employment, instead of, as is the case to-day, an increased productivity in boots, cheese, umbrellas, or anything else, resulting in a glutted market and unemployment.

The Douglas proposals have attracted considerable support in Canada, Australia, and New Zealand, and a recent (1934) tour in these Dominions undertaken by Major Douglas was conducted almost as if it were a religious 'revival.' He received official civic receptions and had a tremendous press and wireless publicity.

No doubt the vast crowds who turned out to cheer him and welcome him as the greatest economic discoverer of the century, had not the faintest understanding of his A + B theorem or of his argument about the flaw in the present price system. But these, after all, are matters upon which the crowds could hardly be expected to construct a reasoned opinion. What is impressing hundreds of thousands of people in the world is the Douglas proposal for a national dividend whereby the increased productivity of man and machine can be readily distributed to consumers, and not, as to-day, permitted (first) to glut markets, and (second, and because of the glutted market) to limit production and throw the producers unemployed and among the non-(or limited) consumers.

We are all familiar with the idea of a dividend by the Co-operative Societies. Every increase in efficiency presumably adds to that dividend. Why cannot every increase in efficient production similarly add to a national dividend and be distributed to the citizen consumers? And if the claims of Major Douglas to have worked out a technique whereby such a distribution of a national dividend can be made without an inflation of the price level are justified, then he has undoubtedly performed a service to humanity, which entitles him to rank with Watt and Lister. True, the Douglas proposals do nothing to socialize ownership of the land and industrial capital – although they involve the national ownership of the Bank of England – and it is equally true that they do nothing to plan and organize national effort for national services, but if they provide, as their author claims they do, a workable method of distributing the produce of a machine age, then no government, whether Capitalist or socialist in the twentieth century can afford to ignore them.

Mr. Johnston provides a footnote for readers to read Douglas's books *Economic Democracy, The New and the Old Economics* and *Credit Power and Democracy,* presumably to justify his commentary. Anyone with any knowledge of these publications plus other writings of Douglas would come to the conclusion that he either has not read Douglas and has been provided with material to write, or has deliberately set out to tell untruths.

His suggestion on Douglas's political leanings is possibly a cover up of his own ideology and that of his mentor Sidney Webb. His approach to the procedure for a national dividend and the application of the compensated price (which he fails to mention) are a mixture of nonsense and simple ignorance. His reference to Douglas's proposals involving the national ownership of the Bank of England is a complete contradiction of what Douglas actually said on this matter. The theme of Social Credit is de-centralisation, not centralisation.

On 14th February 1934, a letter was sent to C. H. Douglas inviting him to appear before a Government Monetary Committee set up by the Government of New Zealand. In subsequent correspondence Douglas was requested "to submit to the Committee the suggestions referred to in your letter in order that they may give them full study before meeting you". (Signed by W. B. Sutch for the Secretary)

Douglas met this request but a study of the Notes of Evidence Given Before The Government Monetary Committee, Saturday, 24th February at Wellington reveals little understanding of Douglas's proposals. Indeed, much of the questioning appeared to be intent on attempting to discredit Douglas rather than obtaining information to assist in their enquiry into the monetary system and changes, which may be effected to improve it. Some of the questions were asked in a manner that begged the question. That is to say they were asked, not to obtain information, but to elicit an answer that might contradict their own established opinion which they had no intention of changing.

The detail in the examination of Douglas in this enquiry reveals the inadequacies of those undertaking the questioning but highlights the simple clarity of Douglas's understanding. This may be illustrated by the closing questions to Douglas in this enquiry.

The questioner is Mr. Nash.

> Another point: assuming that the banks are paying 3½ per cent. and they find all of a sudden that certain moneys are to be taken by way of reducing interest and overdrafts etc. . . .
>
> Douglas: Certain moneys?
>
> Nash: Certain profits of the Bank are to be utilised by your suggestion here to-day by way of reduction of overdraft and also by the way of reduction of interest. Taking the fixed deposits?
>
> Douglas: They have done that in England now – you only get 1 per cent on fixed deposit.
>
> Nash: But they have not adopted this scheme. [This is a reference to Douglas's proposals. – Author]
>
> Douglas: Well that is all the worse.
>
> Nash: One other question: In regard to the Insurance Companies, you propose to use their frozen assets in the way suggested. This country is subject to earthquakes (fortunately we have not had one this morning) and these assets are held by the Insurance companies against probable loss. Suppose we had a big upheaval in New Zealand and the companies were called upon to find the money and it had been distributed in these shares? [The remark in brackets was supposed to be funny but was more in the vein of sarcasm. – Author]
>
> Douglas: The physical assets of the country are the only basis for the existence of any monetary values at all. Money is of no value apart from physical assets; if there are no physical assets left in New Zealand, there ought to be no money.

Chairman: On behalf of the Committee I should like to thank Major Douglas for the time he has given us."

The Report of the Committee was shrouded in some mystery as to who prepared the Report and what it actually achieved in relation to its terms of reference. Latter day experts, to support their erroneous claim that Douglas was discredited, have used the Report selectively for this purpose. Comments on the Report appeared in various publications some of which are recorded here.[41]

THE NEW ECONOMICS, OCTOBER 12, 1934, Page 14.

New Zealand Notes

MONEY COMMITTEE'S REPORT

The report of the N.Z. Monetary Committee has at last been issued. Copies are available from the Government at 2/- each. The report is so lengthy, however, that the Committee have issued a summary, and it is from the latter that these comments are made.

The Majority Report

Various recommendations are made, of which retention of the exchange rate at 125, the starting of a National Mortgage Corporation, and of a money market, and the placing of Stock and Station Agents under the control of the Central Bank are the most interesting.

There seems to be some effort made to gloss over the gold basis. At any rate, even the summary is at pains to speak of the "gold standard" as being rejected as a basis, and it is recommended that gold reserves be exported.

That would not abolish the gold basis, of course, but taken in conjunction with the introduction of the term gold standard, it is justifiable to suspect that the intention is, as was suggested some time ago, to tum the spotlight off the gold basis. Further, the report states that the volume of credit depends upon the value of production, a statement I should regard as being a dangerous half-truth when made to the uninformed.

One of the favourite ways of financial apologists to avoid a factual difficulty is to go back to childhood and propound with all a third-form boy's solemnity the old riddle of which came first, the hen or the egg? The N.Z. enquiry has been no exception, and we are told that non-monetary factors have caused the depression.

The Douglas Proposals

Major Douglas's plan is rejected as logically bringing a net decrease of purchasing power. Some space appears to have been given to it and full use is made of adjectives [emotive use of words to support an argument that is weak – Author], as the following, culled from approximately half a column, will show: ”Mere fantasy, fantastically, ineffective, mere caprice, social injustice, arbitrariness, irrationality, capricious, indefinite, circumlocutory, self-contradictory, irrelevant, evasive, dubious validity!”

The proposals of the Douglas Social Credit Movement are described as “Economics through the Looking Glass,” which would ruin the “saving class.” As given some of the D.S.C.M. representatives' statements appear queer. For instance, “deficiency of purchasing power will be the determining factor in calculating what are A and B payments”; and, “the valuation of a ton of butter would be determined by ‘the amount of physical support it will give a man with a family.’ ”

Mr. Stewart's Statement

Mr. Downie Stewart (former Minister of Finance) presents a report of his own since he held that the majority report was irrelevant, mischievous, and self-contradictory. The impression received from reading his report is that it was a counsel arguing a brief for banks. The general tenor of his remarks is the moral one, as, for instance, ". . . and the function of trading banks, whose primary duty is to their depositors," or, "It is a new doctrine to me that a bank should not pay regard to the credit-worthiness of its borrowers or their chance of making a profit." He makes some interesting admissions in his remarks, such as the one just quoted that credit granting is dependent upon the chance of the borrower recovering his costs in prices.

It is just at that point that Douglas finds the mathematical defect ("The core of the trouble lies in costs"), and it is because of the legal liability of a borrower to repay his costs, whether or not he has the chance to recover them in prices, that the cause of the depression is monetary, not non-monetary.

Another interesting remark of Mr. Stewart's was: **"There are, in fact, many indications in the report that the committee is in doubt whether it believes in our present system . . . or whether it is toying with the idea of a socialised State."** Mr. Stewart advocates no monetary experiments, and thinks the cause of the depression is not lack of credit, but lack of markets – the "hen and egg" riddle again.

The Minority Report

Captain Rushworth and the Labour Members of the Committee issued a minority report which from the summary, should bring readers of the report back to facts and realities. Their view is that the money mechanism is defective, and they remind the others that the London and Southampton Chambers of Commerce, as well as the World Economic Conference, also found the originating cause to be in the money mechanism.

Conclusions

The writer's personal conclusions after reading the summary were:

(1) That his suspicion was correct that certain facts about banking policy and practice, which had been dragged into the light, were causing difficulty, and that this difficulty has been shaded by (a) verbosity; (b) use of conflicting terms; (c) adroit use of expert guidance acting on intelligences neither highly endowed nor well informed generally; (d) possible misrepresentation of the case put forward by the D.S.C.M. or by the fortunate fact that the Social Credit Movement had explained itself badly.

(2) That Mr. Downie Stewart is the selection of the financial power for "sane finance" – and "sane Govemment" at the next election.

(3) That the difficulties of presenting a report unassailable by competent Douglas technicians had been too great, and that discussion of the report by Douglas technicians dealing strictly with facts, and the divergencies of opinion in the report, offers a golden opportunity of gaining much support for a Douglas mechanism on its own merits.

T.A.G.

Who Prepared the N.Z. Report?

It would be interesting to know who actually drew up the New Zealand Monetary Committee's Report. The following press references suggest that it was the work of one or several "experts," doubtless of the type that provide politicians with their ideas on the subject.

The *Otago Daily Times* of September 15 says:

> Upon such a range of subjects as this experts in economic science, who have given their life to the study of them, might be expected, after a few months' reflection, to produce a work equal in bulk to the committee's report. A few hours deliberation seems to have sufficed the committee of the House after it had heard all the evidence submitted to it.
>
> In the circumstances, when the personnel of the committee is remembered, the readiness with which it arrived at its decision is, not less than the voluminous character of its report, apt to create a feeling of surprise. The man in the street, turning over the pages of the report (if it ever reaches him) and observing the agility with which the compiler of it skips from one branch to another of a highly debatable issue, and observing also his assumption of authority, might reasonably marvel that his pretensions as an economist had not before this been more fully recognised in the Parliament of the country. More surprising, however, than the fact that one member of the committee apparently enjoyed an unsuspected knowledge respecting a highly intricate subject sufficiently great to qualify him for the preparation of a ponderous treatise upon monetary policy, is that other five members were sufficiently in agreement with him to subscribe unquestioningly to all the conclusions that are expressed in it.

The Evening Star states:

> In its main purpose, then, the inquiry has been abortive. The nigger was not in the woodpile. Nevertheless, many people in the community will remain sceptical, and our advice to them is to buy this parliamentary paper: *Monetary Committee (Report of The)* – and they should find themselves well repaid for the outlay of 1/9. They will find it informative on an astonishingly wide variety of subjects, well arranged and couched in unexceptionable English – in fact, the question as to who drafted the report has already become a matter of speculation.

Possibly more experts than one were employed; for, as Mr. Downie Stewart points out in his statement explaining why his signature is not among those of the majority of the committee, their report is often self-contradictory. Out of a total of eighty-seven pages Mr. Stewart occupies only four.

CHAPTER XI

On April 6, 1934, Major Douglas appeared before the Agricultural Committee of the Alberta Legislature to provide some plan to assist Alberta in fighting its way out of the Depression that was affecting the agricultural community so heavily. Having made an open address Douglas was subjected to questions which in themselves revealed the scant knowledge of those questioners in the area of finance and economics.

Irrespective of what Douglas may have contributed to their understanding and what may have been explained in the question and answer period there was an underlying yet prophetic assumption by Douglas that appeared on pages 96/97 of the transcript of that evidence:[42]

> Q. Mr. Ross. Under the British North America Act the provinces have no control over the currency and banking. Is it possible to establish a system of social credit in any province under these conditions? If so, please explain how?
>
> A. Douglas [in part – Author] The obvious answer to it is to make the question smaller and smaller and smaller, so that you can get to grips with it and get something done about it. In regard to Alberta, I should say, and I am of course open to correction by the legal talent here, that the first thing to do is to concentrate on the financial institutions and employ whatever powers you have got left, not to put too fine a point on it, to penalize these institutions. You have got to get a sanction in the political field to bring to bear on this situation to get something done. It is not the slightest use as far as I can see going to the financial people and saying: "This has to be done because of the state of the world, because the people are starving in the midst of plenty." Whether because whom the gods destroy they first send mad, or for what reason, they seem impervious to any argument of that kind.

> They are simply pursuing a perfectly standardized scheme and nothing seems capable of deflecting then from it, so that you have to get some power of bringing these people to reason. The question is what power can you bear in Alberta?
>
> That gentlemen seems to me to be a question very largely for you, but I feel sure that is the only method by which that can be done. Singing sweet songs to these gentlemen and putting up schemes of any kind is not going to do the job, for if it happens that you put up a scheme such as my own or any other which traversed the existing financial system and it happened to be legal – I don't think that it could be illegal because the situation has been so carefully surveyed – it would be made illegal within six months . . . .
>
> Given the power, either I or dozens of other people could provide you in three months with a scheme which would work perfectly and put Alberta, or Canada, depending on the extent to which it is applied, forever outside the range of poverty. **But you cannot do it because you won't be allowed** and it is your problem to find out how to get the power to put into operation a technically sound scheme. [Emphasis added – Author]

Critics have consistently laid claim to the fact that Social Credit had been tried in Alberta and failed. This is completely and utterly false because it was never allowed. The first Social Credit Legislation introduced by the Aberhart Government was "The Alberta Credit House Act". Its passage was accompanied by a barrage of propaganda such as had never been unleashed in Canada before. Some of this propaganda would make Goebbels[43] appear to be a Saint telling the truth.

In a summary of the case of the Economic Safety League Against Social Credit as stated in *The Dangers of Douglasism* (1935)[44] they stated:

1. If Social Credit wins an electoral majority, confidence will disappear from business in Alberta.
2. Social Credit proposes to issue toy or make-believe money (which it calls credit) at the rate of $10,000,000 a month.
3. Wages and salaries are to be paid in toy money.
4. Under Social Credit the alternative to wild inflation is heavy taxation.

The rest of the items are plain rubbish based upon the false statements such as these.

> In August, 1937, the Government of Alberta in obedience to the demands of the people of the Province, passed legislation designed to provide effective control of policy in accordance with the declared will of the electorate, without interfering with the administrative function of the banks or the jurisdiction of the Dominion government in regard to administrative matters coming under Section 91 of the B.N.A. Act, and without interfering with the primary civil rights of policy control in any other province.
>
> This enactment was assented to August 6th, 1937, in the name of His Majesty the King. To the amazement of the people of Alberta, and, no doubt, to the equal amazement of people all over the dominion, the Dominion Cabinet, without consulting the people of Alberta or the people of Canada as a whole, and without consulting even the representatives of the people of Canada, simply disallowed the legislation".[45]

Thirteen Acts passed by the Alberta Legislature introduced by the later Aberhart government designed to implement some of the Social Credit policies, were declared *ultra vires* by the Courts or invalidated by the Dominion government. Although there were appeals, Royal Assent was refused. Appeal in respect of the judgement confirming the Federal cabinet's power to disallow was withdrawn, on the advice of Alberta's counsel.

It is of particular interest to note that new banking legislation together with an Act "to insure the publication of accurate news and information", was enacted, but Lt. Gov. J. C. Brown reserved assent, decision being put up to the Governor-General-in-Council. One of the banking bills increased from one-tenth to one half of one per cent. the tax on paid-up capital of the banks and imposed a new tax of one percent. on the reserves and un-divided profits of banks. The other, replacing disallowed legislation, was the Act to amend and consolidate the Credit of Alberta Regulation Act, providing for licensing of credit institutions and establishment of one or more local directorates to govern credit policy.

The banking bill and the press control Act were carried to the judicial committee of the Privy Council after they had been invalidated by the Supreme Court of Canada. The privy council declined to hear argument on the appeals regarding the measure to regulate credit and the press bill, allowing the judgement of the Supreme court, which declared the bills unconstitutional, to stand. Their lordships based their decision on the ground the Acts were inoperative [they were not operative because they had not been allowed to operate – Author] and of no practical interest, they were ancillary to the **Alberta Social Credit Act** repealed in April, 1938.[46]

A curious feature of the judgement handed down by the court in respect of three Acts was that consideration of each one was not individual; they were grouped with other Acts of the legislature. The Court ruled that Social Credit – i.e. – the faith of people in association that they can gain the objectives of that association was an illegal scheme.

Therefore, the ruling continued, the **"Alberta Social Credit Act"** (which provided for the Social Credit Board) was *ultra vires*. Because the Social Credit Board Chairman was mentioned in the "Credit of Alberta Regulation Act" and the "Accurate News and Information Act", these Bills were *ultra vires* of the Legislature.

It was a novel, if not fantastic ruling. To ensure that the Privy Council would not be hampered by an Act, which was not included in the reference, the Legislature repealed “The Alberta Social Credit Act”, and re-established the Social Credit Board under a new, “Social Credit of Alberta Realization Act”.

The Privy Council also produced a novel ruling. It was to the effect that, since the “Alberta Social Credit Act” had now been repealed, argument could not be heard from Alberta’s Counsel, and there could be no hearing.[47]

The final litigation that went before the Privy Council in London was lost by the Albertan Government. When asked for the reason for the judgement against the Albertan Government, the only response was, “Because we said so.”

Thus, by declaring one Act – the *Alberta Social Credit Act – ultra vires,* which was repealed because of that decision, the very repealing of that Act was used as a basis for not allowing any further appeals on other Acts which were all lumped together on the grounds that it was repealed, and therefore there could be no hearing.

Full details of the background to what has been referred to as the Alberta Experiment and correspondence between Douglas and Aberhart can be obtained in the publication of that name.[48] Douglas also updated his observations on the Alberta situation in *The Social Crediter,* Vol. 20, Page 105, 1948, which confirmed his earlier prophetic comment to the 1934 Agricultural Committee enquiry.

Douglas had predicted the outcome and Social Credit was never allowed to get off the ground. So much for those critics who claim that it had been tried and failed. They have either failed to do their homework and criticise from ignorance or they have a motive that is identical to those who opposed the Alberta Legislature so strongly.

The continual barrage of writings opposed to Douglas and Social Credit reached a zenith in the period 1933/34 and could be attributed to the growth of the number of people who were apparently supporting the concept of Social Credit. Questions were being raised from all quarters and apart from the letter that Douglas wrote that appeared in the journal *Social Credit* on December 7, 1934, the following item listing refutations appeared in the journal *Social Credit* February 8, 1935:

All Objections to Douglas Answered

> SINCE one still meets people who believe that Social Credit has been "exploded," readers might be interested to see Major Douglas's letter on page 227 Of Our issue for December 7. [refer above – Author]
>
> This letter refers to the three occasions on which his views have been the subject for formal debate with critics in this country. They are (1) The Debate with Mr. R. G. Hawtrey[49] at Birmingham, in 1931, (2) The Wireless Debate with Mr. D. H. Robertson, in 1933; and (3) The Debate with Mr. D. H. Robertson after Major Douglas's address to the Marshall Society of Cambridge on October 2, 1934.
>
> On none of these occasions was any serious attempt made to meet the Social Credit position.
>
> The main published criticisms of Social Credit, with replies thereto, are as follows:
>
> H. T. N. Gaitskell:[50] Chapter on "Four Monetary Heretics," in G. D. H. Cole's omnibus "What Everybody Wants to know about Money," published by Gollancz.

Replied to in *The New Age,* of December 28, 1933, by J. Adamson, and in *The New English Weekly* of December 21, 1933.

"Purchasing Power and the Trade Depression," by E. F. M. Durbin:

Replied to in *The New Age,* November 2, 1933, by Hilderic Cousens; see also article entitled "Efficiency" by J. E. Humphries, *The New Age,* May 4,1934.

"The Douglas Fallacy," by H. Belshaw, M.A., published by Whitcombe & Tombs, Ltd., Wellington, Melbourne and London:

Replied to by A. E. Robinson: pamphlet entitled "The Belshaw Fallacy?" price 6d., obtainable from the Dawson Printing Co., Vincent Street, Auckland.

Both these circulate in Australia and New Zealand, and not in this country.

"Facts and Fallacies of Douglas Credit," by Professor Copland, of Australia:

Replied to in *The New Age,* October 20th—December 8th, 1932, by Dighton W. Burbridge, LL.B.

Professor Robbins's paper entitled "Consumption' and the Trade Cycle" in *Economica,* November, 1932:

Replied to in *The New Age,* December 15th, 1932 by the Credit Study Group.

"The New and the Old Economics," by Major C. H. Douglas, is a further reply to both Professor Copland and Professor Robbins.

A + B and All That

It is more than unfortunate that critics of Douglas and Social Credit did not and do not research more thoroughly. It is understandable that those in opposition to Social Credit principles contained in its Philosophy and Policy do so from a position within the boundaries of their own philosophy and ideology. If it is deemed necessary to counter Social Credit two things should be made abundantly clear. The first is whether or not the philosophical views coincide and secondly whether their arguments are based on premises from within their own discipline or not.

In the first instance, there is no discoverable reason why anyone would want to argue technical points if they are coming from a completely diametrically opposed philosophic position. For example if critics of Social Credit oppose certain technical arguments, those critics should be prepared to agree if, whether or not, they believe in the freedom of the individual or whether they believe in collectiveness.

In the second instance, for example, before presenting an argument against any technical proposal of Social Credit, critics should define the basis of and the premises of the their argument. It is a complete waste of time to argue on questions containing words such as, wealth, credit, income, to mention only a few, unless there is complete agreement on the meanings accepted by both parties. To argue against Social Credit on the basis of orthodox economic premises is futile. A third and fourth ingredient, which appear in the writings of many of the critics, are, untruths and insults, neither, of which have a place in sensible reasoned argument.

Before discussing different points of view from conclusions based on different premises, agreement should first be reached on the premises themselves. A good example of this is the approach by Douglas in refuting Keynes's arguments, found in *The New and The Old Economics*.

He quoted a remark by the Association of American Engineers at Columbia University concerning the disparity between the debt claims against the physical equipment of all American industry – a debt claim on prosperity. In essence this meant that the debt claim against the equipment was not equal to the claim available to the consuming public to meet the future prices of products emanating from that equipment without a further increase in the debt claim by the consuming public. Douglas said:

> The foregoing is sufficient answer to the quotation from Mr. J. M. Keynes, which begins: 'Let X be equal to the cost of production of all producers. Then X will also be equal to the incomes of the public'. This is the well-known logical fallacy known as *petitio principii,* which consists in assuming the truth of the fact which you have set out to prove and then proving the assumption from the logical conclusion.
>
> The cost of production is *not* equal to the incomes of the public, and therefore the rest of the argument merely indicates what would happen if it were equal.

Correspondence

Although as previously itemised, all objections to Douglas were answered, these objections were not discussed or commented upon by those who were challenged. Instead they continued as they do, some seventy years on, feed like parasites on the original objections.

A correspondent to Douglas was answered by the following letter which was published in the journal *Social Credit* and which is reproduced here. As with most other responses by Douglas the critics choose to be selective in their criticism ignoring that which they find difficult to answer. If not difficult, then there must have been some other reason for their actions or non-actions.

December 7, 1934

Correspondence

Major Douglas on Mr. Hawtrey and Others

TO THE EDITOR OF SOCIAL CREDIT.

Dear Sir, I have addressed the following letter to a correspondent, and it may possibly interest your readers.

Yours faithfully,
C. H. DOUGLAS.

> Dear_______ , I am interested to hear that Mr. Hawtrey at the meeting of the Engineers Study Circle characterised the Douglas Theory as "puerile" This appears to be a relapse into the manner of an article he wrote about 1923 in *The Pilgrim,* which was unadulterated Billingsgate, and was accompanied by a statement of his belief that the correct objective of a satisfactory monetary system was a stable price level. I have never, myself, been able to find a satisfactory adjective for an objective which would require that the price of neckties rose when the price of bread fell, and I notice that Mr. Hawtrey, in common with other professional economists, is now not quite sure that this would be wholly desirable. (Cf. D. H. Robertson's chapter in *"The International Gold Problem,"* F. A. Hayek, *"Prices and Production,"* and *"Monetary Theory and the Trade Cycle,"* R. G. Hawtrey *"The Art of Central Banking,"* Chapter V.)
>
> Since, however, this tendency to become abusive appears to be inherent in some of the Professional economists who deal with these matters, and as I agree with you that they do, as experts, command a considerable, though diminishing, amount of attention from those interested in the problems of finance, it seems desirable to put upon record the four occasions on which my views have been the subject for formal debate with them in this country. They are (1) the Debate with Mr. Hawtrey at Birmingham in 1933, (2) The Wireless Debate with Mr. D. H. Robertson in 1933, (3) Chapter VIII of Mr. Cole's book written by Mr. H. T. N. Gaitskell, (4) My address to the Marshall Society of Cambridge on October 20, 1934. Mr. D. H. Robertson was present at this address, and took part in the debate, which followed the address.

I have no hesitation in saying that neither in the case of the two formal debates, nor in the case of my address at Cambridge, in which I put forward certain aspects of my case in the form of questions to the Society, was any serious attempt whatever made to meet my position. Mr. Hawtrey's contribution to the debate at Birmingham consisted in an able exposition of the orthodox theory of the balanced budget. Mr. D. H. Robertson's reply to my opening statement of my case in the Wireless Debate completely disregarded this statement, made no attempt to reply to it, substituted a statement which was not mentioned in the opening statement of my case, and demolished this substituted statement on the basis of hypothetical answers to questions with which the time limits of the debate did not allow me to deal, and which were subsequently answered at length in *The New Age* in a totally different sense to that which Mr. Robertson evidently expected. At Cambridge Mr. Robertson, together with others, ignored completely the technical question which was put to him in my address, and which was also put to Mr. Hawtrey without obtaining an answer. Mr. Gaitskell's criticisms were completely answered and his argument disposed of by Mr. J. Adamson in *The New Age* of December 28, 1934.

I have no doubt whatever, as to the fundamental reasons for the divergence of my views, from those of the professional economist. The professional economist believes, whether he is aware of it or not, that it is possible to have a science of money which is self-existent and independent of the industrial arts. I do not. For this reason I do not think that any economist who at one and the same time believes in a stable price level and a balanced budget in connection with the modern production system can have anything of value to offer towards a constructive solution of our difficulties.

I am sorry that I cannot address the Engineers Study Circle, but my engagement book was already full by June this year.

Yours sincerely,
C. H. DOUGLAS.

CHAPTER XII

There is an old saying that “birds of a feather flock together”. Equally, “by their fruits ye shall know them.”[51]

On February 1, 1935, it was reported that The National Executive of the Labour party had appointed Messrs. Evan Durbin, Hugh Gaitskell and William R. Hiskett as a committee to examine anew the Douglas Social Credit proposals.[52] This is significant in itself given the attitude of the Labour Party Central Executive which included Mr. Sidney Webb previously mentioned, and his attitude towards Douglas.

Mr. Durbin was discussed in Chapter IV. The refutation of H.T.N. Gaitskell, which appeared in *The New Age* December 28, 1933 and was reprinted December 27, 1934, needs little commentary here as Mr. Adamson dealt with it quite adequately. We again see the connection between some of the critics and the obvious collusion regarding their criticism.

Mr. Gaitskell in Chapter VIII of his book *Four Monetary Heretics* draws upon Mr. G.D.H. Cole who wrote *What Everybody Wants to Know About Money*. The so confused content of Gaitskell’s argument and his misquoting of Douglas leaves no doubt as to his competency with respect to his understanding of the A + B Theorem. A classic comment is, “It is evident that the ‘rate of flow of prices’, or the sums which have to be charged to cover costs, do not include *all payments* made in respect of the production of the article.” Mr. Adamson dealt very effectively with the illogical thinking of Gaitskell and there is no need to traverse that territory.

What is important is the connection with Mr. Cole. G.D.H. Cole

> began his career as a philosopher, and taught philosophy in Durham University. Becoming conscious of the fact that he was talking nonsense, he diverged into economics, and published his first important book, *The World of Labour,* in 1913 . . . .

> He and his wife, Margaret Cole have collaborated in numerous detective stories; and at the same time he has continued to write an amazing number of books on economics and historical subjects, sometimes in collaboration with his wife . . . . Both Mr. And Mrs. Cole are active Socialists and have been for many years connected with the Labour Movement . . . . [53]

Gaitskell also draws upon Mr. E.F.N. Durbin by reproducing a diagram contained in his *Purchasing Power and Trade Depression* previously discussed in these pages. Thus we see how each of these critics have much in common particularly with regard to their ideology and the ability to feed upon one another's work. Contemporary critics today some sixty years later continue the same pattern.

We come now to Mr. W. R. Hiskett and his book *Social Credits or Socialism*.[54] To the intelligent reader there should be some significance in the title, which is in the nature of a choice. It is obvious that before one ventures into the content that the title provides an indication of a division, and as a result there must be no expectation of an unbiased approach. The title is *not* Social Credit *and* Socialism which would indicate a discussion between two different streams of thought or even a suggestion of some convergence. On the contrary it is a simple choice of "Them or Us", and if one knows where the "Us" is coming from, it helps to explain the *raison d'etre* for the book.

Once again we find the "You scratch my back and I'll scratch yours", association. A Hugh Dalton provides an introduction to the book. Mr. Dalton was Chancellor of the Exchequer until 1947 when Sir Stafford Cripps succeeded him. Mr. Dalton provided sufficient interest from 1935 and over the next 15 years for Douglas to pass some comments, which reveal from whence Mr., or later Dr. Dalton was coming:

> It has been admitted that the prominence of the ineffable (but deadly dangerous) Aneurin Bevan and Dr. Hugh Dalton in the Labour Party's revolt against both the Schuman Plan and the Council of Europe seems at first sight to be

anomalous, although it assists the Kremlin, but we think that the incongruity is more apparent than real. It should be remembered that a policy of centralisation is always (but only) favoured by individuals who expect to be at the apex of the pyramid. As *an ultimate* policy, all Leftists favour centralisation but only at the correct moment.[55]

Whatever (if ever) may once have been true of the great Protestant Public Schools, the vague idea that they are the preserve of the aristocracy has no resemblance to truth at the present time. Leaving altogether aside the question of what kind of aristocracy has any effective existence in England there is no doubt that it is *la haute bourgeoisie* who dominate the Public Schools, it is to *la haute bourgeoisie* Dalton and Cripps[56] belong, and in whose interests (they think) Sir Ernest Cassel gave half a million pounds to the London School of Economics, ostensibly founded by Sidney Webb, Sir Stafford's uncIe.[57]

It is a measure of the accomplishments of the Social Credit movement that there is in this country and in the House of Commons a not inconsiderable minority of more or less informed opinion on the elements of finance. Twenty-five years ago, 'Bretton Woods'[58] could have been put through unexposed; we are fairly confident that Mr. Hugh Dalton, the People's Advocate, will have to tread very delicately indeed to keep the peculiar position of a "Labour" Chancellor supporting a Gold Standard Bank proposal from looking just a trifle odd. But doubtless he will do it, with the aid of a few well-tried stalwarts such as "World Peace", "International Trade" and "Full Employment.[59]

Mr. Dalton opens his introduction with the following remarks.

> A sick man, the more so if his illness is prolonged, turns uneasily on his pillow and hopes for relief, when other methods of treatment seem unavailing, from any new quack cure of which he reads or hears. The illness of our own society, continuing through long years of capital depression and chronic unemployment, likewise predisposes its victims to listen to anyone who advertises some simple magic remedy. One of the most persistent of these advertisers is Major Douglas.

Apart from the snide remark on Douglas, Mr. Dalton has admitted that the society was sick and had been for a prolonged period "continuing through long years of capital depression (a shortage of money) and unemployment." Whilst labouring on the point that Douglas was not a Socialist, which was true, he admits, or advises, that "his (Douglas) proposals are to be regarded, not as something which could form part of a socialist programme, but as an alternative to Socialism . . . ."

Taking this remark and the title of Hiskett's book it is obvious that there was a deliberate intention to denigrate Douglas and Social Credit from a particular viewpoint and not as a reasoned argument on specific differences. In other words, Douglas was not a Socialist, and the work to be undertaken was not because of differences on the technical proposals but simply philosophic. Mr. Dalton says, "It is evident, not only that Major Douglas is not a Socialist, but that he does not understand what Socialism means".

Mr. Dalton draws on his colleagues as a reference to critics against Douglas by suggesting that in addition to Mr. Hiskett:

> One of the ablest of whom is Mr. E.F.M. Durbin, whose book *on Purchasing Power and Trade Depression* (Cape, 1933) I recommend to any reader who wishes to pursue this matter further. A summary of the argument of this book, together with some positive proposals is contained in Mr. Durbin's pamphlet on *Socialist Credit Policy* (Gollancz and New Fabian Research Bureau, 1934).

We have discussed Mr. Durbin's book previously but it is clear to see how these critics continue to feed on each other. However, unlike these critics who make wild, fantastic, false claims about the Douglas proposals and often without being specific let us look at something Mr. Dalton has to say. The numbers are inserted for further comment.

> The prices of goods, Major Douglas proposes, shall be fixed below their cost of production, and the losses which employers and shareholders would suffer shall be made good by the issue to them of additional supplies of currency notes (1). In consequence of this continuation of inflation on the one hand, and of the fixed prices on the other, the demand of the public for all goods whose prices are fixed would greatly exceed the available supply. There must, therefore, be either queues day by day outside the shops (2), with all the irritation and waste of time which this method of shopping entails, or there must be a strict system of rationing for purchasers of every article the price of which is fixed. This would cause widespread irritation, and would involve the misdirection, on a gigantic scale, of administrative energy. The Douglas Scheme is not only an intellectual nightmare, but an administrative monstrosity.

We need go no further with this absolute nonsense. Obviously Mr. Dalton has never read Douglas, or does not understand what he said, or he is deliberately attempting to mislead. Anyone who wishes to prove the correctness of Mr. Dalton's explanation of the Compensated Price mechanism by Douglas is invited to do so, as we have little time to devote to such incorrect absurdities. To save the reader the time we can offer the following observation.

Recognising that Mr. Dalton's introduction goes a long way towards unintentionally damning Hiskett's book from the start, a closer look at the above statement extracted from Mr. Dalton's Introduction might show the intellectual dishonesty and absurdity in his writing.

Mr. Dalton, prior to the above statement quoted from Douglas's book *Credit Power and Democracy* saying:

> In his book on Credit Power and Democracy Major Douglas, indeed, flatly rejects socialisation of mines and railways, and argues that the private capitalist should **"retain all the ordinary privileges of capitalist administration other than price-fixing".** (Emphasis added)

In his forgoing contribution (1) Mr. Dalton says in effect that under Social Credit prices shall be fixed below their cost of production. Apart from the error in his use of cost of product as against financial cost it becomes almost monotonous to repeat: Social Credit technique allows no fixed price below, at, or above Financial Cost. The Just Price or Compensated Price whichever term is used, neither regulates nor fixes prices. As at present, the price of goods to consumers in a Social Credit community shall be determined before the Compensated Price mechanism is applied. The loss to the seller is made good by drawing upon the "unearned increment of association", or in other words, by drawing upon the credit of society. The seller is reimbursed to the extent that the price to the consumer has been reduced.

Dr. Dalton agonises in his criticism (2) over a vision of long queues of people waiting outside shops to purchase goods at reduced prices. Previous to the vision, when discussing the reduced prices and the consequent losses being made good, he says "In consequence of this continuous inflation . . . ." that is to say, he sees the people buying goods at reduced prices, and at the same time sees the devouring monster of inflation stalking through the land.

There is a great difficulty in being competent to deal with this kind of reasoning.

Mr. Hiskett, like Dr. Dalton, was a dyed-in-the-wool Socialist. We read, on page 151, the critic's conception of wealth, and with absolute certainty, that not only has he been guilty of one of the most outrageously inhuman utterances we have ever read, but that it is a sheer intellectual impossibility for him to have even a hazy conception of Social Credit, let alone be able to criticise it. Mr. Hiskett says:

> The natural product, or the labour, or the combination of both, must have the quality of usefulness or desirability before it becomes wealth.
>
> Even this does not give us a complete definition of wealth, for the air we breathe is useful and necessary, but it is not wealth, because the poorest individual may have an unlimited supply of it. Wealth must not only be useful – its supply must also be limited, and in addition it must be capable of being transferred from one person to another.

Mr. Hiskett says air is not wealth, but what is the reality. Social Credit advocates would suggest that the true definition of wealth is that wealth is in consumption. There is no point in having a million dollars in the bank if it cannot be used. At the same time there is no point in having a million dollars in the pocket in the middle of the desert when dying of thirst. If one is in the middle of a fresh water lake and sitting in a boat with no water in the flask and a large thirst to suggest that there is no wealth around is ridiculous.

There is nothing on this earth that can function without air. Air means life; lack of it means Death. From the moment the babe leaves its mother's womb, from the moment the seedling pushes its way from the dark confines of the earth, the first supreme and vital necessity is air. Without air life on the earth would be non-existent; yet Mr. Hiskett says it is not wealth because the poor can breathe it in unlimited quantities.

If air could be limited, if it could be bought and sold, if the rich could breathe it in cubic metres and the poor went gasping and spluttering with tortured lungs and overworked diaphragms, then according to Mr. Hiskett it would be wealth. Water, in Mr. Hiskett's reasoning, in a desert oasis is wealth, while water from the kitchen tap, or in an ever-running brook, is not wealth, because the poor could drink as much as they liked. Mr. Hickett is correct when he says, "wealth must be useful" but wrong when he says, " its supply must be limited". He is correct when he says, "the total amount of all money must equal all the goods and services priced with it". Unfortunately he does not accept that they are not equal and yet agrees with Mr. Dalton who admits to the "illness of our own society, continuing through long years of capitalist depression and chronic unemployment".

Mr. Hiskett, in his book acknowledges and agrees with much of what Douglas said, but the weakness and illogical content of his argument on the technical side illuminates the real reason for his discontent. It is not the techniques so much as the philosophy underlying it.

His conception of wealth damns not only his book, but it damns his Socialism. It means that the world can be wealthy only when things are limited to such an extent that the poor cannot have anything other than a statistically rationed satisfaction.

We have discussed the Macmillan Committee enquiry earlier and Mr. Hiskett devotes a great deal of his book to this enquiry with the purpose, "to convict Major Douglas out of his own mouth". There is no need to cover that territory again, because whilst it is true to say that Major Douglas submitted evidence, and was verbally interrogated, it is untrue to say that his proposals were examined, or discussed, or rejected. However, Mr. Hiskett does not convict Douglas "out of his own mouth", but convicts him on his (Hiskett's} interpretations and incorrect assumptions. They are too numerous to go into detail but the reader is entitled to some indication of Hiskett's approach:

> Arising out of Major Douglas's claim that it is possible to make any relation between purchasing power and prices that is desired, Mr. Brand asked, in question 4509, "You mean you can at the same time increase purchasing power and lower prices?"
>
> The reply – "Undoubtedly! Without the slightest doubt" is the more remarkable when it is remembered that the witness had at the outset laid down that the ordinary effect of increasing purchasing power is to raise prices.

This is one example of the honesty of Mr. Hiskett. In the first place the relation between purchasing power and prices in Douglas's proposals is not what Mr. Hiskett suggests. It is not to make any relation between purchasing power and prices but a relation between Consumption and Production. In the second place the relation between purchasing power and prices is the end result of achieving a relation between Consumption and Production and is not the primary objective that is desired. Mr. Hiskett has no conception of the difference between purchasing power, prices, Consumption and Production and to use these as though they were interchangeable reveals a complete incompetence on the subject.

The third point to make in regard to Mr. Hiskett's interpretation above is that Douglas's answer was completely in accord with his proposals and Mr. Hiskett is not honest in equating the effect of increasing purchasing power without increasing the goods available to be purchased as against increasing purchasing power *per se*. Reducing prices or, increasing purchasing power whilst maintaining the same prices may increase purchasing power.

We leave Mr. Hiskett and the Macmillan enquiry to look at Chapter V on 'First Principles', which he says in his Preface, "may be omitted without weakening the main argument. It is intended primarily for the use of readers having only a slight acquaintance with economic science, and will, I think, assist them to place the problem in a right perspective."

We do not think a reading of this Chapter should be omitted because it is here that we can obtain a full understanding of Mr. Hiskett's conceptions.

The first thing Mr. Hiskett deals with is wealth. We have touched on this above but note what he says: "Wealth consists in material possessions, and in the ability to render useful service, and money, in either of the forms in which it exists today, is no more than a measure of value". He overlooks his previous inclusion of limitations. On the question of money, we would argue that money is not a measure of value. Money cannot measure anything. The value that is placed upon anything is subjective and money serves only as a claim upon something that is desired and if there is sufficient to meet the price and it is "valued" at that price by the purchaser it can be obtained. However, if one wishes to bury it in the ground, or put it in a place where it cannot be consumed, physically, mentally or used as Mr. Hiskett says "used" it is doubtful if it can be regarded as wealth. If one chooses to use Mr. Hiskett's definition so be it, and there is no point in any further discussion.

A further example of confusion on definitions by Mr. Hiskett is seen in his explanation of the difference between wealth, capital goods, and consumer goods. He also neglects to differentiate between wealth, capital goods, assets and liabilities:

> Let us suppose that I wish to have an additional cupboard in my house to add to its amenities. If I am a fairly expert amateur carpenter, I may decide to make it myself, and in that case I shall go to a timber merchant and purchase the material, which I require for the purpose. That material will be, *for me,* a final product, because I shall consume it for my own personal satisfaction.
>
> If, on the other hand, I do not feel able to understand the job myself, and decide to commission a carpenter to construct the cupboard for me, he may go to the same timber merchant, and purchase the same material.

> But whereas in my case the timber was used as a final product, in the carpenter's case it will be capital goods, because he will consume it in the sense that he uses it on my behalf as the ultimate consumer.
>
> It is in fact paid for out of working capital, and he has to pass the charge on to me in the price of the cupboard.
>
> It will be seen quite clearly that the capital goods in this case represent a liability which the carpenter has incurred on my account and consequently I shall not complain when he charges me, in the price of the cupboard, a sum which will reward him for his labour and craftsmanship and also replace that portion of his working capital which he has expended on my behalf.
>
> We may say then that by capital goods we mean all wealth which is held, not to satisfy the needs or desires of the holders, but in order to make a profit by satisfying the needs or desires of others. Within this definition we should include stocks of final products held for sale, and also raw materials, semi-manufactures, plant, machinery, and buildings, which are the materials for future production.

Mr. Hiskett clearly does not appear to know the difference between wealth and assets and it would probably be superfluous to point out that plant and machinery that is idle may or may not have the monetary value attached to it in the books of the proprietor. Only so long as they are being consumed (used) do they have value and that is an asset value – not wealth, because they are capital goods and the "wealth" that may be attached to the possession of them, lies, not in the money paid for them but the money that may be received in using them to produce something, which in itself must be sold and used by or consumed by the purchaser. Mr. Hiskett refers to the timber purchased by the carpenter as "capital goods" whereas they may be classified as an asset. If Mr. Hiskett had any knowledge of simple bookkeeping he would not have made such an elementary error on items which on any Balance Sheet would reveal the difference. The purchase of the timber most probably came out of a bank overdraft, which is not capital.

Even if it did not, it did not come out of "working capital" which in any business is a liability to the proprietor. If any capital is used to purchase what Mr. Hiskett calls wealth, the item appears on the balance sheet as an asset, not a liability.

Mr. Hiskett also makes the following revealing statement, which may surprise Social Crediters because it says exactly what Douglas stated as a requirement for the correct operation of the economic and financial system. It is precisely because it does not operate in the manner which Mr. Hiskett agrees is the correct view.

> Although it is a common practice to treat the term 'money' as covering only the circulating medium, consisting of notes and coin, this view, is in the opinion of the writer, responsible for much confusion of thought. The correct view appears to be, that *money is simply a title to goods and services, and the TOTAL AMOUNT OF ALL MONEY MUST EQUAL ALL THE GOODS AND SERVICES PRICED WITH IT*. [Italics and emphasis added – Author]

After his discussion on wealth he takes the next twenty-four pages to write with complete confusion about money, Bank Credit, and Overdrafts, *etc*. For those who have not read the book it would be difficult for them to believe that he actually thinks that Major Douglas's idea of Bank Credit is that it is a "'shadowy substitute for money". It is possible that Major Douglas might have used the word 'shadowy' in this connection, but nobody knows better than he, that apart from being a 'substitute' for money, bank credit is actually money. It not only performs all the functions of money but is in actual fact the greater part of money in use.

The refutation of each and every criticism by Mr. Hiskett is not desirable here as it would take a book as long as those fallacious criticisms contained in Mr. Hiskett's book. Current day critics could do no worse than to study his book and attempt to apply them rather than just quoting his book as being a valid criticism of Douglas and Social Credit.

Report of Tasmanian Select Committee on Monetary system

The Select Committee was appointed on November 28, 1934 and handed down its findings in 1935. Readers who may wish to familiarise themselves with this enquiry can do so but it is not intended to cover the territory here. Noted, however, in the transcript is the reference to criticisms of Social Credit and the usual misleading and unfounded comment relating to criticisms by others. This is the usual tactic.

Criticisms of Social Credit.

During the 1934 Commonwealth Election Campaign, a pamphlet, dated July 26, 1934, "With the Compliments of Irvine Douglas, Publicity Officer, Prime Minister's Department, Canberra," was widely distributed throughout his electorate of Wilmot on behalf of the Prime Minister. It says:

> It is not necessary to consider in detail the whole of Major Douglas' curiously complicated theories and vague proposals. It is sufficient to say that they have been investigated time and time again by qualified and disinterested persons, economists, industrialists, bankers, business managers, cost accountants, and politicians of all parties, and not one of them has found them other than basically unsound and impracticable.

Witness Ault said, "Nothing in Douglas is disproved there," and produced a list of all the important inquiries that have been instituted.

A Committee of the British Labor Party held an inquiry in 1921, and found adversely because "the Social Credit Principles were not in agreement with the defined Policy of the Labor Party in Great Britain, and therefore would not be contemplated."

The MacMillan Committee was instituted to consider the gold standard. It had no authority to inquire into or report on Douglas Principles. At the request of the Social Service Section of the Congregational Union and the Editor of the *New Age,* they asked Douglas to give evidence, but made no mention of his evidence in their report, which was concerned almost exclusively with the gold standard.

Major Douglas was twice invited – at about ten years' interval – to give evidence in Canada, and the fact that he has been retained as Reconstruction Adviser to the Government of Alberta speaks for the impression made by his evidence.

CHAPTER XIII

Despite the continual claims that Douglas and Social Credit had been disproved and discredited there still appeared those who apparently wanted to place their names in the history books. One such now forgotten person was Maurice Dobb, one time Master of Arts in the University of Cambridge, 1935. He produced a publication of some 29 and a bit pages entitled *Social Credit Discredited.*[60]

The front cover provides an insight into the ego of this gentleman: "being an examination in terms of Political Economy of the much advertised nostrums of Major Douglas, which are subjected to a devastating analysis and found wanting as a solution to the troubles of our times". Before examining some of his "findings" it might be worth mentioning that he refers to "Political Economy", "nostrums" and a "devastating analysis".

The emotive use of the word "nostrums" is designed to belittle Douglas in the eyes of the reader before Dobb presents his "devastating analysis". Nostrum is usually equated with a "quack remedy". It is the use of an illogical fallacy of attacking the man and not his argument, referred to as *Argumentum ad Baculum* in logic. As for Dobb's "Political Economy", Douglas had this to say about Political Economy:

> We hold no exclusive patent on either monetary reform or political economy, using the term in the sense in which it is understood, *e.g.*, in Cambridge. But, so far as we can observe we appear to be alone in insisting that monetary reform is *not* Political Economy. Perhaps we may elaborate a little.
>
> We say a money system is a special form of accounting which should indicate a balance between prices of goods in the market (including intangibles) and available purchasing power.

> But further, we say that wages and salaries are payment for an intangible which is a component of all tangibles, and that these two propositions taken together impose a balance which is factual not political. Political Economy only begins where finance *ought* to leave off. For instance we should characterise the monetary policy of the Socialists in general, and the present British Administration, as similar in fact and essence to a fraudulent balance sheet, not because we dislike their policy, as we do, but because we have a complete contempt for their accountancy.[61]

One would expect in a "devastating analysis" an approach that was logical, unemotional and presented in a specific scientific or at least mathematical manner. What do we find? He first introduces the reader to "Social Credit" with the following diatribe:

> It is now a fact proved beyond reasonable doubt [although no evidence or reference is given – Author] that Fascism is an instrument which the ruling class uses to break the working class movement – to smash the trade unions and co-operatives and beat-up and gaol Communists, Socialists, active trade unionists, even pacifists and liberal intellectuals – in an attempt to stabilise monopoly-capitalism by these means. But to do this it uses novel instruments: it seeks to create a mass basis for itself by putting forward a programme of "popular", even "pseudo-Socialist", demands to attract the masses of the people, who are hurt and rebellious at the crisis, but are hopeless and see no way out. Once Fascism is in power such "radicalism" is quickly dropped, and its advocates even "shot-up" in their turn (as we have seen in Germany); but by that time this popular *façade* has done its work. What is significant for our present purpose is that the Fascists on the Continent have made big use of ideas and demands of a Social Credit type. (pp. 6, 7)

Dobb makes a feeble attempt to qualify his innuendo by saying, "In saying this we are not trying to label the Social Credit movement in this country as 'Fascists'. . . ." (p. 8). Yet he continues,

> Indeed, for many the attraction of Social Credit Schemes is the result of a revolt against the capitalist system and vested interests which it nurtures, and monetary reform is seized upon by them as an instrument of radical change.

> And if notions of this sort are used by Hitler and Mosley, is that not a very strong reason on the face of things to suggest that they are aimed, not at the true, but a fictitious foe? (p. 8)

Apart from the "straw man" arguments that he puts up in addition to his rather verbose emotive language, "quackery", "pompous obscurity", "mysteries up his sleeve", he, like many other critics puts his own interpretation on what Douglas said. For example, "For Major Douglas capitalism is not a system of production, it is not a system based on class-division into propertied and propertyless. All this he ignores. It is purely a financial arrangement of price-fixing – it is 'not a system of administration at all; it is a system of fixing prices in relation to costs' " (p. 11) [The reference given is from *The Control and Distribution of Production,* 1922 edition – Author.]

Now it is interesting to note that Dobb wrote his booklet in 1934 and it was published in 1935. Douglas had revised his 1922 edition in 1934. Although certain of the chapters were first delivered as lectures before the Sociological Society, the Ruskin College at Oxford and the National Guilds League and others had appeared in the pages of *The New Age* and *The English Review* prior to the original publication, no mention is made of this.

It is a pity that Mr. Dobb was so selective in his quotations. If he had quoted Douglas in full it would have shown that Douglas was discussing the opposing forces of Labour and what was regarded by *them* as Capitalists and the obscuring of the fact of the relationship between Labour and Finance. The quote given by Dobb attempts to hide or ignore that Douglas was saying that "Capitalism" was not a system of administration but a system where prices were arrived at and fixed according to the financial costs incurred. This is exactly what Douglas had illustrated in his A + B Theorem. Following the above quote Douglas went on to say:

> This is not to say, of course, that the personnel and methods of administration would not be profoundly affected and improved by a valid and radical modification of the "capitalistic" – *i.e.,* financial – system, but such changes would be effects and not causes.

Mr. Dobb moves on to the A + B Theorem and says; "This formula ('the grasp of which is vital', says Major Douglas) rests on the simplest fallacy; namely it ignores the fact that in the last analysis *B payments become A payments.*" [Dobb's emphasis – Author]

Mr. Dobb has, like other detractors missed the vital principle. After having incorrectly quoted the Theorem and omitting some of it as expressed in the edition he refers to, he then places his own interpretation on what Douglas did not say. For example in explaining his incomplete quote, "Since A will not purchase A + B, a proportion of the production [Douglas said product – Author] at least equivalent to B must be distributed by a form of purchasing power which is not comprised under A [Douglas said *which is not comprised in the descriptions grouped under A* – Author], he (Dobb) says:

> Therefore, unless the banking system adopts a policy of continually expanding credit (*i.e.*, of inflation), goods equivalent to B must remain unsold. To remedy this he proposes to control prices in every industry in such a way as to reduce prices compulsorily *below costs* (A + B).

Passing over his misquote and misleading interpretation in the first instance, we observe that he has ignored the time factor. In the second instance Douglas never suggested a control on prices and thirdly he never suggested the application of the Just or Compensated price discount should be compulsory. What he did say, after stating the Theorem, by way of explanation was, "It will be necessary at a later stage to show that this additional purchasing-power is provided by loan-credit (bank overdrafts) or export credit."

So much for a "devastating analysis"! However, like many of his associate critics he betrays his reason for his opposition to Douglas's proposals, not on grounds financial, economic or mathematical but on philosophic. There is no purpose in exposing any more of the diatribe contained in his booklet except to illustrate just where he was coming from. Douglas had written his *Economic Democracy* prior to *Credit Power and Democracy* from which he chose to misquote.

The essence and emphasis in *Economic Democracy* was on the philosophical aspect of Social Credit, which insisted on the importance of the individual and drew attention to the relationship between the Group and the Individual. It is this that was the problem for Mr. Dobb, who in the closing chapter of his publication said:

> Increasingly it is coming to be realised that economic crises occur primarily for two reasons connected with the nature of capitalism as a system of *production;* because it is an *unplanned* system (a system of "anarchy of production", as Marx termed it).
>
> It is claimed, as we have seen, that a Socialist system would be impotent unless it adopted the Douglas proposals. On the contrary, a Socialist system, because it abolished production for profit, could do all that the boldest advocate of Social Credit hopes to do.
>
> As we have seen, Major Douglas expressly refers to Soviet Russia as "capitalistic" in his peculiar *sense* of the term. Yet soviet Russia has not only abolished unemployment and alone of all countries of the world avoided the economic crisis of 1929, but has multiplied the productive power of her country two or three times in a short space of years, and is harnessing latent possibilities of economic achievement on a scale and at a speed such as history has not previously seen.

On a final fling he confirms the fact the one thing that Socialists and Communists and fellow travellers never do, that is attack the financial system and the inherent flaws in the accounting process. After expounding his view on the necessity for *power* and the claim that this requires a "united day-to-day struggle of the whole working class movement . . . .", he goes on to say:

> Among the latter are many of those who today follow the flag of Social Credit [no doubt referring to the Socialists who were attracted to the monetary aspect of Social Credit – Author]

> The danger to which both they and all of us need to be urgently awakened is that [of – Author] sections being drawn off from the main troop in their fights with sham-enemies, Don Quixote-like; their opposition directed against a narrow group of "financial interests" and against, perhaps imaginary aspects of the "financial system". The danger is a particularly grave one, in that these sham-enemies may be put up and used for reactionary purposes, to draw attention from the real enemy and to detach people from the main body and from the genuine forward advance. And that such sham-enemies not only may be but are used to reactionary purposes there is abundant evidence, as has already been shown.

Readers may judge for themselves what was the basis of Mr. Dobb's entry into the fray against Social Credit.

In an address titled *Economics, or Political Economy,* to the Marshall Society of Cambridge October 20th 1938,[62] Douglas exemplifies the reality of the reason for opposition to his A + B Theorem. The Theorem illustrated a flaw, which, if corrected, could provide the means for greater freedom and security for the individual, and intensify the importance of the individual over institutions, political, economic or social. The following extracts will demonstrate the divergence between opposing views, which were not based on economics but philosophy. Douglas opened his address discussing his early days in study and the necessity to study Greek. Two set books were the *Gospel of St. Matthew* and "a little volume by Xenophon" called *Oeconomicus,* about which he says:

> You will no doubt be surprised to hear that in my opinion, however, both of these are treatises on political economy, although, no doubt, from widely different points of view. In regard to the first, it must surely have occurred to many of you that the explanation given of the persecution of early Christianity as having a religious basis is incredibly thin, when you consider the tolerance of the Roman Empire of that day in regard to what are so amusingly called 'pagan sects' at the present time.

> Without wishing to trench on a subject which is not mine, it has always been my view (perhaps derived from an intense study of St. Matthew just mentioned) that the four Gospels contain an economic and political philosophy which was immediately apprehended by the ruling powers of those times, and actively disliked, and I believe that the difficulties and dangers with which the world is faced today arise out of exactly the same conflict.
>
> As usual, the issues are not so clearly defined in Great Britain as elsewhere. *Ars est celare artem* is highly developed in this country. We find the real objective disclosed in a cruder form in the totalitarian States, such as Russia, Italy, Germany, in regard to which, in this particular matter, I make no special distinction. Put shortly, it is the exaltation of organisations over individuals. The glorification of the State in the first place, and of such things as Law, or the instruments of state sanctions, such as the Army, *etc*., is a corollary.
>
> Organisations appear to acquire a separate existence and character of their own, even temporary organizations, such as mobs. It is well-known that a mob will commit and endorse sentiments for which no single individual in the mob, if approached separately, would take responsibility . . . . A government Department will act officially in a way which would land an individual in gaol, as well as incurring for him ostracism, yet we are asked to regard them as the fine flower of Socialist ideals.
>
> It seems, therefore, taking all these matters into consideration, that the problem which the world has to face to-day is only secondarily a problem of economics, but is primarily one of political economy. In other words, an appreciation and rectification of the use which is made of economic realities is required, rather than to modify very seriously the facts of those economic realities themselves.

As can be seen from the work of Mr. Dobb, his rejection of the idea that there could be a flaw in the financial system and his favouring of a totalitarian State, his dissension with Social Credit was on purely philosophical grounds.

Douglas Fallacies
by J. Lewis[63]

Another contribution to the concerted attack on Douglas, Social Credit and the A + B Theorem was the publication *Douglas Fallacies* by John Lewis, B.Sc. Ph.D. who was also a socialist. A review of the book and its containment of the usual but consistent errors was published with corrections in *The New Economics,* May 1935. Whilst the repetition of the seemingly endless counters to the attacks may become boring it is necessary to include some of those that may not be as well known. Refutations of the well-known personalities are never mentioned and therefore there is no reason to believe that those of minor characters in the game would be mentioned. It would be impossible for this book to cover all the articles and writings on the claims and counter arguments, but the following is extracted from the above-mentioned review:

> Mr. Lewis does not, and cannot, lay claim to having made an impartial study of the Douglas proposals for he commences the introduction to the book by admitting that the main reason for his enquiry into the "heresy" was his concern for the large number of people, and particularly of thoughtful people, who are being won to the Social Credit cause.
>
> The introduction ends with a reference to the report of the British Labour Party's "brilliant group of socialist economists" who found that the "Douglas scheme" is "out of harmony with the trend of labour thought and is indeed fundamentally opposed to the principles for which the Labour Party stands." If the fundamental aim of Social Credit that the Individual shall be economically free is opposed to the principles of the brand of socialism for which British Labour stands, then the reason for the interest shown towards Social Credit by thoughtful socialists and others would be obvious. However, such reasoning as the above by Mr. Lewis and his band of socialists merely reveals that something has been lacking in their approach to the subject.
>
> Mr. Lewis quotes from Major Douglas's Draft Scheme for Scotland the suggestion that consumers should receive a 25 per cent discount upon shop prices, plus a national dividend, both of which would be financed from the social credit.

He then proceeds to state the opinion that if this price reduction were carried too far it would result in inflation, which term he admits, in another part of the book, means an inflation of prices. There is no shortage of purchasing power, he informs us; capitalists produce two classes of goods – those for consumption and those for production. Purchasing power to cover the cost of all the consumable goods and the capital goods need not be distributed, since the capital goods will not be distributed and the capitalist will keep some of the consumable goods for himself.

The fallacies of this reasoning become evident when one remembers that Socialists can see nothing wrong with the present financial system. It follows then that if they abide by that system they must include in the price of ultimate products that portion of the cost of capital goods absorbed in the manufacture of those products.

All financiers insist that loans be repaid and that reserves be built up to meet replacements of capital equipment. Furthermore, we could not imagine the manufacturer of rubber mats or fly papers, unless he had the attributes of the ostrich or the goat, keeping portion of his product for personal consumption. Our experience of business methods leads us to believe that before the manufacturer of those particular products could enter into the pleasures of consumption he must exchange his surplus goods for money. He could then select from the products of others the things he needs for his own enjoyment or consumption.

"The social distribution of the national dividend," he tells us, "cannot take place until social ownership of the means of production has been achieved." On the contrary, we cannot see any necessity for seizing the means of production, since it is inconceivable that any manufacturer would refuse to part with the products of his factory in exchange for the money he needs to meet his production costs and living expenses.

"Corporate ownership" is hailed by Mr. Lewis as the panacea for our ills insofar as "it divides the product among the workers."

“Not equally,” of course, but “in proportion to the value of work done.” Possibly when solar energy displaces human labour almost entirely as a means of production, Mr. Lewis, who values work as an end in itself, will consider the mechanical means of production to be morally superior to man, its creator.

Another imagined Social Credit fault which Mr. Lewis fears is that by perpetuating the system of private ownership of the means of production the growth of capital would continue, by means of the re-investment of savings, to absurd lengths, whilst the community would be powerless to control it. If Mr. Lewis had given the Douglas proposals their due amount of consideration he would have found that one of those proposals was to the effect that all new production should be financed from new credits.

“Depreciation,” he says, is a charge, which may be met by depreciation reserves, which are being spent by other concerns when the charge is made. If it be granted that this does happen in many cases, it rather begs the question of how those reserves were accumulated. An explanation will be found in the thousands of bankruptcies of the industrial era and the immense national debt of every industrialised country. If an industrial concern is to recover more money than it distributes it must do so at the expense of some other industrial concern, or by grasping a portion of those sums which progressive governments are forced to borrow from financial institutions.

By far the greatest piece of moss upon Mr. Lewis’ mental machinery is the scarcity complex. Douglas errs, he thinks, in believing that a country may expand its capital equipment without causing great inconvenience to industries manufacturing consumable goods. It is here that he should find the answer to his query as to why Soviet Russia, despite the inclusion of loan charges and capital charges in prices, is able to distribute her annual output. The reason is that intense capital expansion, financed by new credits, is assuring for the present, that sufficient purchasing power is distributed there.

The fact that the industries of almost all other countries are operating at reduced output, and that there exists an ever-increasing surplus of human labour, evidently conveys nothing to him, neither does he prove that Douglas has ever suggested that much capital expansion is necessary in these other countries.

The book is more interesting as an exposition of the Marxian doctrine than as a criticism of Social Credit.

CHAPTER XIV

In Chapter VII we covered the Birmingham debate of March 22, 1932 between C. H. Douglas and Mr. R. G. Hawtrey, Assistant Secretary to His Majesty's Treasury. In July 1936 Mr. Hawtrey gave a lecture at the Bonar Law College, Ashridge and this lecture was reproduced as Chapter X in his publication *Capital and Employment* published in 1937.[64]

Of a minor nature in the way of a criticism of Mr. Hawtrey is his criticism of the use of the term "semi-manufactures" on which he says on page 294, "It is not a very happily chosen term", and then adds his interpretation, "it corresponds, I think, closely to what are often called producers' goods." There need be no misunderstanding of what Douglas meant when it is clearly explained in Chapter X of *Economic Democracy,* which, if Mr. Hawtrey had read would not have necessitated his comment. He either did not read it or could not understand. One could be forgiven for asking, what did Mr. Hawtrey mean when he used terms such as the "widening of capital" or "deepening of capital"?

On a more serious note it is worth mentioning that it is not necessary to refute all of Mr. Hawtrey's criticisms because he apparently had a change of heart in his revised edition of the publication, 1952[65] in which he excluded the Chapter X from his 1937 edition. From the comment that he made on page 99 of the 1952 edition it is evident that Hawtrey, to his credit, must have realised the correctness of what Douglas was saying, even though he tempers it condescendingly:

> . . . after a sudden spurt of capital outlay, however caused, there is an addition of an appropriate proportion to the provision of depreciation, so that when new capital comes into production, the price of each unit of product has to cover the charge for depreciation, and exceed by that amount the incomes generated in producing it. *Therefore the productive process does not automatically give rise to new demand equivalent to the new supply*. [Emphasis added – Author]

> That is the element of truth in the Social Credit theory of Major Douglas, and recognition is due to his efforts in urging it, though it must be admitted that he habitually overstated his case.

Far from being an "element of truth", it *is* the truth. Secondly it is not a theory and thirdly, how is it possible to overstate a truth except to continue to restate it because people like Mr. Hawtrey and other critics could not understand it? A truth is a truth, is a truth, is a truth.

As it is, his 1937 publication, which critics like to use, ignoring his change over the 15-year period, it is worthwhile illustrating some of the errors in his reasoning. A full answer to Mr. Hawtrey was written by W. L. Bardsley in the *Fig Tree,* a Quarterly publication of the Social Credit Secretariat and edited by C. H. Douglas, in the June and September issues in 1937, a fact that is conveniently overlooked by those who continue to claim that Douglas and Social Credit has been disproved and discredited. Some of the answers to Mr. Hawtrey are reproduced here, although not in full but sufficient to demonstrate that his criticism was completely in error.

To ensure that there can be no confusion on the matter discussed the A + B Theorem as quoted from the Statement of Evidence submitted by Major C. H. Douglas to the Macmillan Committee on Finance and Industry in May, 1930 is again presented:

> A factory or other productive organisation has, besides its economic function as a producer of goods, a 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 groups.
>
> Group A. – All payments made to individuals (wages, salaries and dividends).
>
> Group B. – All payments made to other organisations (raw materials, bank charges, and other external costs).

> Now the rate of flow of purchasing power to individuals is represented by A, but since all payments go into prices, the rate of flow of prices cannot be less than A *plus* B. Since A will not purchase A *plus* B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing-power which is not comprised in the description under A.

Mr. Hawtrey's Giraffe

This is the title to the rebuttal of Mr. Hawtrey's argument, which is reproduced here in part. The article has been edited to delete any extraneous material not relevant to the discussion.

> The much-abused but resilient A + B theorem is still a thorn in Mr. Hawtrey's flesh, and he has what he evidently regards as a new and devastating criticism to make, since he makes it twice; once in the introduction to his book and again in the chapter devoted to Social Credit. The argument is so neatly condensed in the introduction that it will serve well here to open the subject. This is what he says:
>
>> The concept of a deficiency of purchasing power, on which the whole fabric of Social Credit is built, means two different things, and not merely different, but contrary. At one stage it means an excess of money over goods and a consequent dilution of purchasing power by a rise of price; at another stage it means an excess of goods over money. The tacit assumption in the mind of the supporter of social credit is that, if the excess of money over goods co-exists with the excess of goods over money, the deficiency of purchasing power is doubled. With this impregnable redoubt in the background the conflicts over the outworks are mere skirmishes. All the arguments of the orthodox economist are out of court because he has missed this fundamental principle.
>
> Dear Mr. Hawtrey. That last sentence is meant to be sarcastic, of course, but what a funny thing the subconscious is. Perhaps he had a fleeting memory of having said something three years before which contradicted his new argument.

It is a fact that in his debate with Major Douglas at Birmingham he gave a brief outline of the best orthodox account of how goods and services are produced and distributed, while money is created, issued, withdrawn and destroyed, with a description of a period of inflation followed by deflation. It would be tempting to criticise this account, particularly where he begged the whole question which was being debated in one crisp sentence: “Payments by one trader to another cancel out.” But we are concerned here only with the concluding sentence:

> This account of the relation of the credit system to productive activity differs from that of Major Douglas in that it reaches the conclusion that an excess of demand is just as likely to occur as a deficiency.

Careful comparison of this conclusion with the new argument discloses that Mr. Hawtrey has discovered that the A + B theorem does take into account an “excess of demand,” but that (Oh, horror!) it treats it as a dilution of purchasing power. This Social Credit is even worse than he thought it was. The curious thing is that he admits, as will be seen, “the rise of prices which is caused by the dilution as a decrease or deficiency of buying power. That usage,” he says, “is quite defensible, for the rise of prices does diminish the command over goods represented by a given money income.”

It is as if Mr. Hawtrey confronted by a giraffe, exclaimed, “There it is, but I don’t believe it.”

Now the curious thing is that Major Douglas actually supplied at Birmingham the clue to the reconciliation of the apparent contradiction that worries Mr. Hawtrey so much. He said:

> When Mr. Hawtrey says that it is possible to have an excess of demand, I think what he means is that it is possible to have an excess of demand for consumable goods, in which I agree with him. It is possible to have this excess of demand by making a large quantity of goods which are not intended to be sold to the public and using the purchasing power distributed in making these goods to buy consumable goods.

After that it was really rather criminal of Mr. Hawtrey to be so slipshod. He should at least have said “an excess of money over consumable goods.” The whole passage is sloppily worded in the eyes of a Social Crediter, trained to accuracy of expression (note, for example, how he misuses that word “doubled”), but Mr. Hawtrey is an economist, and moreover could plead that the passage quoted is only in the introduction. That, however, is no excuse for leaving out the word “consumable.” Besides, it is also left out in the main argument.

Mr. Hawtrey begins his main argument on page 296 by summarising the A + B theorem (quoted in full above). Summaries of the A + B theorem are frequently misleading, but, as Mr. Hawtrey’s argument is not affected, there need be no complaint about this one in its context. He then makes a remark that calls for extended comment before proceeding to his main argument:

> The sentence ‘A will not purchase A *plus* B’ has been taken both by critics and by supporters of Major Douglas to mean that there is an inherent deficiency of demand. This interpretation has derived support both from the nature of Major Douglas’s remedy, since his subsidy takes the form of the creation of additional purchasing power, and also from some direct pronouncements of his own.

I should like to make a plea here for the King’s English and for commonsense. A theorem is not a parable that it should require interpretation; it is a proposition, which can be demonstrated by argument to be correct or incorrect. Mr. Hawtrey is engaged upon the attempt to disprove it, and it is his business to deal with what Major Douglas actually says and not with anybody else’s so-called interpretation of it.

The sentence “A will not purchase A *plus* B” means one thing and one thing only. Either A will or will not purchase A *plus* B. If not, then a proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the description grouped under A.

Very seriously indeed I suggest that Mr. Hawtrey read the theorem again carefully, and try to understand exactly what it says. It does not just say there is an inherent deficiency of demand, it says something subtly but vitally different from that. It says that there is an inherent deficiency of demand *unless something is done to supplement it.*

As a protagonist of the orthodox theory that the present financial system is self-liquidating, Mr. Hawtrey has to prove one or the other of two things. He has to prove that the rate of flow of purchasing power to individuals is not A but A *plus* B, or else that a proportion of the product at least equivalent to B is *in fact* distributed by a form of purchasing power not comprised in the descriptions grouped under A. In doing so it is not enough for him to make emphatic assertions on the strength of his eminence in the financial world.

It will be his business to prove that any money apart from A which is used to purchase A + B has not left outstanding any cost which must still be defrayed, and that any cost that has been defrayed is not at the expense of another cost left outstanding.

For example, on page 302, Mr. Hawtrey, dealing with the item of cost known as depreciation, says:

> If it is invested either in the business itself or through the investment market, it is made available directly or indirectly for the production of new capital equipment, which will generate [he, presumably, means 'distribute' – Author] incomes.
>
> Nevertheless investment is a separate act, without which the surplus depreciation allowance would tend to cause a deficiency of purchasing power. And it undoubtedly does sometimes happen that such funds, even if not accumulated in cash, are applied to paying off bank advances.

In fact it is admitted here that when a trader charges for depreciation in his price and obtains his price from the public, he does so at the expense of an equivalent deficiency of purchasing power to meet the price of all the goods that remain unsold. But the next point made is that the money so obtained may be distributed again in the production of new capital equipment. Quite so, and, so far as it is paid to individuals, it will be available to buy the unsold goods mentioned above. But it is included as a cost in the charge for new capital equipment, which can be met only by the creation of new money. The deficiency has merely been transferred from one account to another. Again, on this subject of depreciation he says:

> The practice of applying depreciation allowances to the repayment of bank advances is an absorption of cash. But the tendency to cause a deficiency of demand will be counteracted if the banks create equivalent advances in other directions. And this they will seek to do in order to maintain their advances in due proportion to their cash reserves.

Unfortunately for Mr. Hawtrey, this is a perfect example of the situation described by the, A plus B theorem in actual operation. Here, in quantitative terms, is the situation he has described in respect of one only of the items included in Group B in the theorem.

(It is on this point of depreciation that Mr. Hawtrey conceded in his 1952 revised edition that Douglas was correct.)

The price of a batch of goods is A + B, and B is a depreciation charge. The purchasing power distributed in respect of it (according to Mr. Hawtrey) is A, but the trader gets his price A + B, so that the general pool of purchasing power, which we will call x is now x - B; a proportion of the general pool of goods at least equal to B must be distributed by a form of purchasing power to be described by Mr. Hawtrey.

B has been cancelled by the bank and the deficiency remains unless, says Mr. Hawtrey, the banks create equivalent advances in other directions. That is to say, another trader gets a loan and the amount is B, which he uses in his business. He charges it all into his price, so that even if the general pool of purchasing power were thus increased from x - B to x, the price values attached to the general pool of goods have been increased by the same amount B and the original deficiency still remains. Worse, it has been augmented, for when the trader received the loan he used it to create two groups of costs, group A and group B, so that the general pool of purchasing power is still something less than x though more than x - B. So Mr. Hawtrey has his work still to do, and has already made his position more difficult.

If he knew it, his position is impossible, for he has yet to face the fact that Major Douglas has shown in his various works the methods, the efficacy of which is steadily decreasing, by which the present lunatic financial system endeavours to provide the new money with which “a proportion of the product at least equal to B must be distributed”, but to do so in such a manner that (a) the power to monetise the credit of the people does not pass out of the hands of the money monopoly which has filched it, (b) the monopoly retains control of the lives of individuals by dictating the terms on which they shall obtain the purchasing power which is their license to live (the most stringent condition being the nerve-shattering necessity to compete for paid work in an employment market steadily depleted by technological improvement), and (c) the monopoly can dictate the policy of Governments who have to borrow all their funds from it and then compete with the price system to extract taxes from a pool of money insufficient to meet both, so that Governments can be solvent only when their people are insolvent.

From all of which it can be seen that Mr. Hawtrey is defending an irresponsible and tyrannical system of government by money. Which brings me back to the main argument once more.

Mr. Hawtrey's main argument must be stated in his own words:

> In the chapter following the enunciation of the A *plus* B formula he [Major Douglas] deals with the creation of credit. When a banker creates credit, for example, by allowing an overdraft, he enables production to take place. The borrower and those who supply him get to work, and "all those concerns are distributing purchasing power to individuals, in the form of wages and salaries, ahead of production, which causes a rise in the price of existing ultimate commodities, the only commodities that individuals buy" (page 33). This is the dilution of purchasing power already described in *Economic Democracy*. Yet on this very same page the A *plus* B formula is summed up in the proposition "that the current flow of wages, salaries and dividends is less, much less, than the current flow of price values of articles produced". The former proposition asserts that there is an excess of purchasing power over goods, which forces up prices; the latter asserts that there is an excess of goods over purchasing power. How are they to be reconciled?

After what has already been said every reader will be itching to point out to Mr. Hawtrey the enormity of his error. With apologies to them and in deference to him I must dot some i's and cross some t's. Neither of the propositions asserts either of the things he says they assert. The former is very precise and refers to a distribution of purchasing power *ahead of production* causing a rise in the prices of *ultimate commodities*. The latter refers to the *current flow* of wages, etc., being less than the current flow of *price values* of articles produced.

Purchasing power is not quite the same thing as money; it is money in relation to price. One pound is money and it has the power of purchasing five articles priced at four shillings, but only four if their price is raised to five shillings. Take Mr. Hawtrey's phrase, "an excess of goods over purchasing power". That is not what we should say; it is not precise – try it with five articles and a pound; you will find it depends on the price of the articles, and Mr. Hawtrey does not mention the price.

What Major Douglas says is that the current flow of wages, etc., is less than that of *prices* of articles produced. That is precise – try it with five-articles-a-week-at-five-shillings and a-pound-a-week. For the benefit of those who are not familiar with old currency, one dollar is money and it has the purchasing power of five articles priced at 20 cents, but only four articles if the price is raised to 25 cents.

The two propositions that have to be reconciled for Mr. Hawtrey are not what he says they are. It is very easy for Mr. Hawtrey to be superior and devastating about propositions he has mangled to suit the easy flow of his pen. It would be very easy to score off him by rewriting the propositions in some way which suited me, so I invite the most careful and suspicious scrutiny of what I am about to say by way of reconciling two propositions which are made by Major Douglas.

They are two propositions, and they are separate. One is a major and the other a minor proposition. To take the major first, contained in the A + B, (quoted in full at the beginning of this chapter) it is contended that there is an inherent deficiency of purchasing power in relation to prices if purchasing power and prices are both regarded as a flow, which is the correct way to regard them, and is how Mr. Hawtrey regards them, as a subsequent quotation will show.

If we isolate a given period of time to illustrate the major deficiency we must at least compute the total book value of all consumable goods, and of all capital and intermediate goods produced in a given period of production, against the total of wages, salaries and dividends distributed in respect of production *during the same period*.

Let us suppose that in the period chosen the purchasing power distributed in respect of *all* production is sufficient to meet the prices (book values) of all finished consumable goods, and that they are all bought and consumed.

This, I take it, is the situation which would satisfy Mr. Hawtrey's sense of fitness, and it leaves all the remaining goods unsold, but it also leaves outstanding all their book values, which the public will have to pay in the future, since all costs must be defrayed by the public. Now it may be true that purchasing power has been distributed in the past in respect of all these costs (as a matter of fact Mr. Hawtrey has already demonstrated that it is not true for those allocated costs called depreciation), but it is clearly irrelevant since it has already been withdrawn in previous periods in the purchase of consumable goods. In other words, the public has made the goods and paid for them, but the costs are still outstanding and a proportion of them will be included in the cost of goods produced in the next period, and the remainder in succeeding periods.

Since the economic system is a continuous process, successive periods flow into each other, so it must be regarded as a flow, and the A *plus* B theorem so describes it. The B costs referred to in it are the outstanding costs carried over into any period from previous periods plus any fresh allocated costs and costs in respect of semi-manufactures which the public does not buy.

But, says Mr. Hawtrey:

> To say that "the wages and salaries (already insufficient to buy the whole production) tend to be diluted in value until they merely represent the subsistence allowance of the persons concerned" (page 34), does not help; the fact is that confusion has been introduced into the subject by Major Douglas's practice of describing the rise of prices which is caused by the dilution as a decrease or deficiency of purchasing power. That usage is in itself quite defensible, for the rise of prices does diminish the command over goods, represented by a given money income. But unfortunately the same expression, a deficiency of purchasing power, is equally appropriate to the case where there is a deficiency of incomes. In the one case a deficiency of purchasing power means an excess of demand in terms of money over supply at a given price level, in the other it means a deficiency of demand.

I am puzzled as to the exact shade of meaning intended by the word "unfortunately", but to return to the period already described, let us suppose that there has been an expansion of capital equipment (armaments, for example, or, if guns annoy Mr. Hawtrey, electric power stations or blast furnaces), so that there is distributed purchasing power in excess of available consumable goods at their book prices. This is the minor proposition at which Hawtrey boggles. Prices rise. That is to say, sellers add a fresh and profitable allocated cost to the previous book value. Purchasing power is diluted so that a pound, instead, say, of buying ten articles at two shillings, can buy only eight at half-a-crown.

Apart from the painful repercussions of this in the relations between capital and labour (resulting in rising costs), it is clear that the major deficiency has been aggravated (not doubled, Mr. Hawtrey). But what do the traders do with the extra profit? Briefly they do one of four things. They save it, which deprives some other seller of a market for the time being. Now or later they will part with it, however. They will most probably hastily pay back a pressing bank loan which, as Mr. Hawtrey puts it, is an "absorption of cash". Or they will go out and spend it, which is all right, of course; the price rise has merely transferred the right to consume to them. Or they will invest it in their own or some other business, which distributes part of it (the A part) but creates an equivalent A plus B cost. All these processes, except spending for consumption, aggravate the major deficiency; some more than others. Additionally, the "boom" conditions encourage the installation of new capital equipment, the purchasing power distributed in respect of which will augment the process just described, and the cost of which will be outstanding in the next period.

Now the following paragraph constitutes the entire argument that Mr. Hawtrey advances in support of the assertions he has made based as we have seen on garbled paraphrasing of the opposing argument.

> In practice all stages of production are in operation simultaneously. Those, which cause an excess of demand, and those, which cause an excess of supply, tend to neutralise one another. But if we apply the same description, a deficiency of purchasing power, both to the rise of prices in the one case and to the shortage of money offered in the other, it is fatally easy to be misled into the idea that as each stage of production taken separately tends to cause a "deficiency" of purchasing power, therefore when they co-exist they must reinforce one another.

Again, the use of the word "fatally" produces an odd qualm. It reminds me of Huxley's definition of a tragedy as "a theory killed by a fact." That is the classical or deductive standpoint. From the realist or inductive view, if a theory is wrong the discovery of the fact that kills it is a triumph. Fatally, fatally – what *does* it mean?

In any event a period in which purchasing power exceeds the prices of consumable goods, that is to say, a "boom" or inflationary period, does not in the world of hard fact occur simultaneously with a period in which purchasing power is less than the prices of consumable goods – a "depression" or deflationary period. Such periods, as is surely well known, alternate with each other to the glory of Mammon.

CHAPTER XV

In 1936 a Royal Commission was appointed to inquire into the Monetary and Banking Systems in operation at that time in Australia. The Report that was to be handed down had to cover whether any, and if so what, alterations were desirable in the interests of the people of Australia as a whole, and the manner in which any such alterations should be effected. This Report was handed down in 1937.

A submission was presented to the Royal commission on behalf of Social Credit and it is significant as to how the proposals were handled. It is more than significant, apart from the language employed to create the impression that the advocates were a little muddled and were not clear as to how the proposals could be effected. Although condescending in their remarks,

> We have been impressed by the manifest sincerity with which many of the views were propounded. Upon examination, however, we were of opinion that some of the proposals were outside the terms of reference, but, in this part of the report, we deal with the more important of the proposals that fall within them.

They then provide a brief misinterpretation on what they refer to as *Douglas Social Credit – The Outline of the Theory*. It is not intended to reproduce the whole of their mis-statements except to say that they have followed the same errors as those of previous critics. For example, they claim that the proposals refer to a "permanent tendency towards a shortage of purchasing power" and

> They propose that this shortage should be met by government control of credit and by either, or both, of the following methods:
>
> (d) (i) A national dividend in the form of a weekly or monthly payment to every individual in the community;
>
> (e) The money or credit for national dividends and the compensatory payments would be issued by a 'National Credit Authority', such as the Commonwealth Bank.

These two have been selected purely for the purpose of examining the criticisms contained in the Report.

Section 423 and 424 contain a criticism of Social Credit concerning the shortage of purchasing power and conveniently marry both purchasing power and money as though they were exactly the same thing, which they are not. In dismissing the argument on the shortage of purchasing power under section 431 under the heading *Shortage of Purchasing Power Examined* they said:

> 431. No statistics exist which, in our opinion, serve to establish the truth of this theory.[61] We invited the advocates, who appeared before us, to provide us with such statistics, but they were unable to do so.

Apart from the fact that language used by those who wrote the Report was very selective, they also used the usual tactic of inventing statements and then attributing them to the advocates of Social Credit or even Douglas. For example:

> 432. The ordinary view is that whatever is paid out by the producer as the cost of production must sooner or later be paid to some one who receives it as income, which he can spend, if he so desires, on consumable goods.

It may have been "the ordinary view" then and still is now in most orthodox circles, but it was wrong then and is wrong now. Note the rather sloppy use of the term "sooner or later". There has been a blatant disregard to the correct wording of the A + B Theorem which relates to a "rate of flow" and at the same time relates to income and prices generated in the *same period*. One can only surmise whether this was said in ignorance or a deliberate distortion of the facts. One might conclude that it is probably a bit of both when one looks at the distortion in the next section.

> 433. Major Douglas, the founder of this school of thought, contests this view (432), and purports, by what is known as the A+B theorem, to demonstrate that there is a permanent tendency towards a shortage of purchasing power.

This is a deliberate distortion of the truth, because Douglas never said anything of the sort let alone in the A + B theorem. What the Theorem did say was that there was a shortage of purchasing power as a result of the "rate of flow" of purchasing power distributed as incomes to the prices generated in the same period of time. This shortage was and is being met through increased debt and time and subsequent events have proven Douglas correct.

With regard to the criticism on the inability to supply statistics, the same Report says under the heading of "Statistics":

> 618. In carrying out its operation as a central bank, the Commonwealth Bank has been hampered by the scarcity of information upon which to base its judgement. For example, it is essential for the Bank to be able to discern as soon as possible the trend of economic conditions.
>
> 619. We recommend:
>
> (17) The Commonwealth Bank should be given statutory power, similar to that of the commonwealth statistician, to obtain statistics which it requires for its purposes as a central bank, and it should take such steps to obtain such statistics.

In its conclusions on the Social Credit proposals the Report says:

> 467. Our conclusions are as follows:-
>
> (a) There are always some people in the community who have not enough money to buy what is necessary for a reasonable standard of living. In this sense there is at all times, a shortage of purchasing power. The total purchasing power of the community is less at some times than at others. In times of depression, for example, the money income of the community

> is less, and the number of people unable to purchase necessaries is greater, than in times of prosperity. In this sense there is sometimes, a shortage of total purchasing power.
>
> (b) The social credit theory does not refer to a shortage in either of these senses. It alleges that there is a permanent tendency towards a shortage of purchasing power, in other words, that the economic system can never distribute to consumers all the money, which producers have to spend in the course of production.
>
> (c) There is no permanent tendency towards a shortage of purchasing power.

What can one say about such a garbled mess? The only thing that is correct in the above is the first sentence in (b). It does not "allege" anything like what has been suggested. There is a progressive shortage of purchasing power, which is met "by a distribution of purchasing power not grouped under A." The shortage is met by new bank credit in the form of debt lending. Whilst debt may have been ignored in 1937 it would be difficult for the same Report to be handed down today with the increase in debt in all sectors of society particularly in consumer debt. The shortage of purchasing power that occurs through the flaw in the system is papered over by the borrowing against next week's or next month's wages to buy yesterday's production, last week's, last month's or even last year's product.

On the question of statistics, it was found to be a fault of the Social Crediters not to be able to provide that which did not exist and which hampered the work of the Commonwealth Bank. So much for objectivity!

With respect to the financing by the Commonwealth Bank, the Royal Commission in its own Report, as distinct from anything claimed by Social Credit advocates, said under the heading of Central Bank Credit:

> 503. The central bank in the Australian system is the Commonwealth Bank of Australia (now the Reserve Bank of Australia - Ed.). This bank is a public institution (was - Ed) engaged in the discharge of a public trust.
>
> As the central bank, its special function is to regulate the volume of credit in the national interest, and its distinctive attribute is its control of the note issue. Within the limits prescribed by law, it has the power to print and issue notes as legal tender money, and every obligation undertaken by the Commonwealth Bank is backed by this power of creating the money with which to discharge it.
>
> 504. Because of this power, the Commonwealth Bank is able to increase the cash of the trading banks in the ways we have pointed out above [this refers to section 502 which deals with trading bank cash reserves – Author]. Because of this power, the Commonwealth Bank can increase the cash reserves of the trading banks; for example it can buy securities or other property, it can lend to the Government or others in a variety of ways, and it can even make money available to Governments or others free of any charge.

Although the Commonwealth Bank, "the peoples' bank", has since been sold and is now a public company, the same principle applies to the Reserve Bank. But then the Royal Commission was not interested in the fact that money could be made available or should be made available. Like all the opponents of Social Credit and the proposals that encompassed this fact recognised by the Commission, there were, and still are arguments relating to the controls that exist and should exist. Social Credit proposals as a result of the truth of the A + B theorem would be the first to ensure that there would not be runaway inflation.

Hence the two parts of the proposal for National Dividends and the Compensated Price mechanism which would automatically establish the necessary controls.

Despite their criticism of the Social Credit proposals the Commission revealed what could only be described as despicable in the use of the nation's money supply.

Prior to the establishment of this Royal Commission, Douglas had delivered a speech at Oslo, February 14, 1935 to H. M. The King of Norway. In this speech Douglas drew attention to the question of taxation and the relationship to national debts, and war loans and how on investigation these debts could be found to be held by large financial institutions. An explanation of the truth of this can be found in the same Royal Commission on the Monetary and Banking systems operating in Australia at that time.

To put this into perspective the reader may ponder on who was operating a “funny money” system or more correctly a swindling system to the detriment of the public at large. Sections 104 and 105 say it all:

> 104. A more direct, but in the result a less important, means of increasing the cash resources of the banks was the grant of right to obtain notes from the Treasury. In October 1914, the Government gave to the banks the right to get £3 in notes for every sovereign [a sovereign was worth £1 – Author] presented by the banks at the Treasury. Two-thirds of the amount of the notes so issued were treated as a loan to the banks, which were required to pay interest at the rate of 4 per cent per annum, and to repay the principal not later than twelve months after the end of the war. Similar rights were given to the banks when they handed over 5,000,000 sovereigns (worth £5,000,000) for export in September 1914. In 1919 the banks advanced up to £6m to provide cash in lieu of 5.25 per cent war gratuity bonds for special classes of recipients. For this service the banks were entitled to obtain advances at the same rate from the Treasury up to the total amount provided. The 1920-21 harvest was financed by the banks in the four wheat-growing States by advances at 6 per cent interest. Every bank which made such an advance had the right to borrow at 5½ per cent from the Treasury up to the full amount outstanding.
>
> 105. Another method of finance was the arrangement made for the war and peace loans raised in Australia from April, 1918 to September, 1920. The plan as applied to the sixth war loan was as follows. In order to enable their customers to subscribe to the war loan, the banks agreed to offer overdrafts up to 90 per cent of their subscriptions, the rate of interest on the overdrafts to be 4 per cent per annum.

> As the war loan carried interest at 4.5 or 5 per cent, the conditions of the overdraft proposal were attractive. On its part the Treasury undertook to make to any bank a loan of notes, if needed, up to the amount of overdrafts granted to customers and still outstanding. The interest to be paid by the banks for these loans was fixed at 3 per cent. Similar arrangements with different rates of interest applied to the other loans. The extent to which the banks made use of these various facilities may be gauged from the fact that up to December, 1920, the sum of £12.04m had been advanced in notes by the Treasury to the banks, of which £6.97m had been repaid.

If the above sections are read carefully it can be seen that there is a common thread. With the exception of one it can be seen that the Commonwealth Treasury actually advanced money to the banks and then borrowed it back at a slightly higher rate of interest. This money was then spent and borrowed back again and again.

The fact that the Treasury is a government department and the end result being that the interest had to be met through taxation is lost amongst the general taxation paying population.

But then as has been said the people get the government they deserve and the fact that the current system still allows the banking system to create the nation's money supply is still lost to the detriment of the people and is apparently of little concern to them.

CHAPTER XVI

When the second phase of the war, commonly regarded as World War II, erupted the money that was scarce during the preceding decade, suddenly became available. With the increase in the money supply the interest for monetary reform waned. The concern that had been uppermost in the mind of Socialists, that many of their flock had defected to Social Credit, evaporated. It is true that many, who claimed to be Social Crediters, were in fact simply monetary reformers and had attached themselves to the Social Credit Movement, and as Douglas had stated that a graph could be depicted showing that when the graph showed a restriction on the supply of money growth, the graph would indicate a growth in monetary reform advocates.

Since the end of the thirties there have been little significant attacks on the A + B Theorem. Those who were dedicated to extinguishing the proposals of Social Credit had originally thought, mistakenly, that the whole of Social Credit rested on the importance of the Theorem. Their strategy was to discredit it and as a result any further interest in Social Credit. Of course this was the first mistake, because Social Credit did not and has never had to rely on the correctness of the Theorem.

In recent years, in the 1970s, the 1980s, and the 1990s, there appeared spasmodic attempts by some academics and others to ridicule Social Credit. It is interesting, in that in these attempts to “discredit” Social Credit the antagonists resorted to quoting from works in the 1930s or reducing their criticism to emotional and childlike statements or to completely dishonest statements. Some examples of these will be discussed. It is also interesting that if the proposals of Social Credit were of such insignificance and so irrelevant why these academics still choose to write about it.

To put the matter into perspective it is necessary to go to the publication *Economic Democracy*. This book, which originally appeared in serial form in another publication, was published in 1920.

In it, and there is no question about it, Douglas drew attention to and emphasised the fact that there existed a definite "demand to subordinate individuality to the need of some external organization". He never wavered from this view and explicitly, on many occasions wrote about the necessity to understand the relationship between the "individual and the group". In truth it can be said that Social Credit is not *primarily* about money at all; it is about a practicable approach to provide for economic and political democracy by instituting a policy to sustain the underlying philosophy.

In 1924 C. H. Douglas gave an address in which he said in part:

> No discussion of the financial system can serve any useful purpose which does not recognise:
>
> *(a) That a works system must have a definite objective.*
>
> *(b) That when that objective has been decided upon it* is *a technical matter to fit methods of human psychology and physical facts, so that the objective will be most easily obtained.*
>
> In regard to (a) the policy of the world economic system amounts to a philosophy of life. There are only three alternative policies in respect to a world economic organisation:
>
> The first is that it is an end in itself for which man exists.
>
> The second is that while not an end in itself, it is the most powerful means of constraining the individual to do things he does not want to do; *e.g.,* it is a system of Government. This implies a fixed ideal of what the world ought to be.
>
> and the third is that the economic activity is simply a functional activity of men and women in the world; *that the end of man, while unknown, is something towards which*

> *most rapid progress is made by the free expansion of individuality, and that, therefore, economic organisation is most efficient when it most easily and rapidly supplies economic wants without encroaching on other functional activities*.[66]

Writing in 1947 C. H. Douglas again confirmed his original perception:

> The set of ideas which became the movement known as Social Credit began with an examination of the problem of the relationship of the individual to the group, and the financial proposals which emerged were consciously, and in all their developments, designed to free the individual from group domination. It is evident that the essential nature of the problem, not merely has not changed, but has become more sharply defined.[67]

In 1971 the then Chairman of The Social Credit Secretariat wrote:

> All that has happened since 1924 has demonstrated that the second of these policies has been ruthlessly enforced. But the work State is ultimately incompatible with human freedom, and leads to the police State – whither we are clearly headed. Whatever "democratic" Governments may think they are "managing", they are in fact merely agents of this policy, and what passes as economic "theory" is merely the rationalisation of the means to the end. High taxation, for example, is supposed to "control" inflation. But high taxation is a Marxian concept, designed virtually to universalise the proletariat – eliminate the middle classes, leaving only the rulers and the "toiling masses".[68]

The conscious diligent and observing reader should now be aware of the real reason for the prolonged attacks on the A + B theorem and subsequently on Social Credit itself. Each critic not only quoted each other's works but all belonged to a class encompassing the same philosophy. That philosophy was contrary to that of Social Credit.

Whereas Social Credit was advocating the importance of the individual and the relationship to the group, the adversaries belonged to a camp that was the reverse. The opponents to Social Credit had, and still do have, a philosophy of collectivism; the group ideal; the subordination of the individual to the organisation, the State, or whatever institution that may achieve their ends.

In 1950, two years before his death, Douglas wrote:

> To anyone closely in touch with affairs in the ten years before the outbreak of the second phase of the War, it was obvious that Keynes, and the Keynesian distortion of the Social Credit thesis, were the Financiers' Answer to the attack on the Banks. Lord Keynes was an able man, and was furnished with the best assistance unlimited money could provide; and the Keynesian Proposals for Deficit Spending, by which the under-distribution of purchasing power disclosed by the A + B theorem, and rather cleverly admitted by Keynes, was paralleled by money issued to finance Public Works which were not for sale . . . were a brilliantly devised trick to put the population permanently to work for Lord Keynes's employers.[69]

Some of the antagonists to Social Credit in the last two decades included Albert Gailord Hart, Professor of Economics at the Columbia University. His garbled misinterpretation of the Theorem is deleted as it is not pertinent to the discussion at this point and, because it is completely and totally incorrect (as can be verified by any wishing to confirm). He wrote in 1953:

> Of all the money plans on my list, the most thoroughly crankish is Social Credit. This is a sort of monetary cult, led in England by the celebrated Major Douglas. It has a Canadian branch, which has turned into a political party in the prairie provinces and has held office for several years in Alberta. The operating policies of this party, however, have not been very closely linked to the basic Social Credit doctrine.

Following his muddled version of the Theorem he states:

> It is easy to see that something is wrong somewhere. The "theorem" proves too much. On an average, for the firm in an industrial economy, the A's are only a fraction of total costs. Only a fraction of a year's output therefore could be sold. At this rate, the economic machine must have become completely jammed long ago, with all output stopped – but how did we fail to notice it?[70]

It is indeed difficult to understand how a person of obviously reputable standing in the world of economics could be so childish in an approach to "discredit" or "disprove" the theorem. First he says it is easy to see something is wrong and then follows with an absurd statement that it proves too much. How is it possible to prove *too* much? Either it is proved or it is not. This is like saying he was 200% correct. Secondly his distorted version of the A + B Theorem is not only silly but quite unbelievable coming from an academic. To suggest that the Theorem said anything about "only a fraction of a year's output could be sold" is dishonest. Thirdly his supercilious remark, "but how did we fail to notice it", is a self-opinionated egotistical attitude of someone who has tried to misinform his students. After all, his book was an economics textbook. The reason that the economic machine did not come completely jammed, although it could have, was because, as the Theorem said, "A proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the description grouped under A".

Professor Hart has indicated his ignorance and misunderstanding of the Theorem. That form of purchasing power which has been distributed which is not "grouped under A" (wages and salaries), comes from new lending (debt) created by the banking system. In addition it might be suggested that when the Theorem was proposed there was no such thing as lending for consumption by means of such instruments as Bank Cards, *etc*. Nor was there any Hire Purchase or Leasing.

It would be interesting to know what would be the current situation if, for example, just Bank Card lending did not exist. Would the system have jammed or would the production of consumer items have been drastically reduced.

The truth and reality is that Douglas did not prove too much; he stated a fact. The increased indebtedness of people, which is the result of only being able to purchase yesterday's products with tomorrow's wages is evidence enough. However, Professor Hart continues with his diatribe:

> The answer is, of course, that the "A plus B Theorem" is a silly way to compare costs and markets. If we consider costs as the sum of A plus B, we cannot say in the same breath that only income is available to buy output. For the B costs of (say) retail trade provide a market for the goods that wholesale must sell. A "deficiency of purchasing power" on the scale suggested by Social Credit has never existed and can never exist.

Professor hart can be put to rest together with his deceitful approach. The A plus B Theorem does not "compare costs and markets". He ignores or deliberately avoids using the correct wording and explanation attached to the Theorem, which discusses a "rate" of flow between the generation of costs and the generation of prices. Finally his use of italics in the wording "deficiency of purchasing power" is designed to lead the reader in to the belief that Social Credit has suggested some "scale" or amount of deficiency of purchasing power, which exists. That is not only not true but again intentionally designed to mislead.

Another professional economist Colin Clark entered into the fray and published articles in the columns of a Queensland newspaper the *Courier Mail*.[71] Some of the extraordinary inaccurate statements made by Professor Clark can be summarised to avoid becoming boring in the refutation of these critics. For brevity his statement will be reproduced with a reply following.

Clark: "Douglas claimed that banks could create credit without limit." Douglas never claimed any such thing and this statement is therefore a deliberate lie. The use of the word "lie" may sound strong but it is based on an acceptance of Professor Clark's academic position, his choice to discuss the subject and that as an "economic expert" he would have done a thorough research.

What Douglas did say was that, ". . . money has no reality in itself. . . . in itself, it is either gold, silver, copper, paper, cowrie shells or broken teacups. The thing which makes it money, no matter of what it is made, is purely psychological, and consequently there is no limit to the amount of money except a psychological limit." Douglas was always ready to accept the definition of money by Professor Francis A. Walker as

> any medium which has reached such a degree of acceptability that no matter what it is made of, and no matter why people want it, no one will refuse it in exchange for his product.[72]

In the first instance financial credit is accepted and used as money. It forms at the very least 95 per cent of what is accepted as money. Financial credit is issued and therefore created by the banking system and is separate and distinct from what Douglas termed *Real Credit, i.e.,* a correct estimate of the rate, or dynamic capacity at which a community can deliver goods and services. The issue of financial credit (money) should reflect this fact and Douglas explained this by saying:

> The business of a modern and effective financial system is to issue credit to the consumer, up to the limit of the productive capacity of the producer, so that either the consumer's real demand is satiated, or the producer's capacity is exhausted, whichever happens first.[73]

The truth is that banks could create credit without limit but we never said they should, because to do so without a correct control would be disastrous with runaway inflation. Professor Clark knew this and yet joined in with the chorus of the false accusations that have always been made against Social Credit, that we just want to print money and give it away.

Clark echoes the views of Professor Hart; "If one attempts to follow Douglas' muddled statements, it appears that ever increasing stocks of unsaleable goods must be being produced and hidden somewhere."[74]

This arrogant and ludicrous remark needs no further response as it has been dealt with above.

After having attempted to suggest that Social Credit had its origins with Fabian Socialists and Guild Socialists, something which has arisen again in the late 1990s, and also trying to make a case for Social Credit as a political party, as well as associating Social Credit with Fascists, Clark says in a very pompous and repulsive manner, probably for the benefit of his colleagues:

> I once heard Douglas lecture. Fat, red-faced and self-assured, he looked like a caricature of a British Army major. His lecture was muddled throughout.[75]

It is a pity that he did not choose to provide a reference to which lecture he attended instead of stooping to personalities, which have no substance in a reasoned debate. But then selectivity is a common feature with such detractors.

Clark claimed that Douglas said: "Every time a bank required repayment of a loan, it created unemployment and trade depression."[76]

This is simply utter nonsense as Douglas never said anything of the sort. It is in fact an indictment on the integrity of Professor Clark as to his competency for truthfulness in approaching a subject in a professional manner. It is a complete fabrication as are most of his other comments, *e.g.*,

> In Canada the Social Credit Party rapidly grew in strength and in 1934 unexpectedly won the Provincial elections in Alberta.[77]

Perhaps if Professor Clark had known something about the subject of Social Credit that he so strongly denigrated (note the switch from attacks on the A plus B Theorem to a direct attack on Social Credit), he may not have written what he did. A considered opinion is that he did know and had other reasons for his damning comments. Apart from the fact that Social Credit is not a political party, there have been, including in Alberta, political parties formed using that title. This does not make them Social Credit. To put the record straight, a Social Credit Party as a Party did not exist until *after* the elections referred to in 1935. There was a Social Credit Movement led by William Aberhart which had arisen out of his Bible study groups and religious broadcasts and which had been denounced by Douglas as not following Social Credit as he had prescribed and as being against genuine Social Credit policy. It is obvious that he was unaware of an excellent study of the developments in Alberta by Professor John A. Irving, Professor of Ethics and Social Philosophy, Victoria College, University of Toronto, who in 1959 wrote:

> The development of the Social Credit party in Canada now extends over a quarter of a century in time and from the Pacific to the Atlantic oceans in space. This book is restricted to an analysis of the rise of the Social Credit movement in Alberta during the formative years between 1932 and 1935. *After its first electoral victory the movement became institutionalized as a political party.*

The candidates for the election in 1935 were chosen followers of Aberhart and were in reality independent candidates standing on what they believed was a Social Credit platform. To draw attention to this Aberhart launched what he termed a Social Credit Party, although no administrative organisation existed. This occurred in April 1935, contrary to what Professor Clark has stated:

> . . . William Aberhart, a Calgary teacher who has gained a large and enthusiastic following more especially in the southern half of the province, launched early this month a new political party to contest the coming elections on what *The Times* Edmonton correspondent describes as "the Aberhart version of Major Douglas's plans."[78]

The truth is that although the existing Government – the United Farmers of Alberta (U.F.A.) would not take action as being demanded by the farmers, they came together in what Aberhart called a "Party" in April only four months prior to the election in 1935 and not in 1934 as stated by Professor Clark. The fact is that it was unexpected only by those of the United Farmers of Alberta who sat in government and other parties.

Clark states:

> Douglas however got hopelessly muddled when he tried to explain that the economy was producing more than it could sell.[79]

Any student of Social Credit would search endlessly to find where Douglas had said that, particularly in the simple context of how it has been presented. The only person who may have been hopelessly muddled was Professor Clark.

Clark embellished his articles with a mixture of vague accusations, innuendoes and a mix of everything but the kitchen sink. He introduces Fabian Socialism, Guild Socialism, Fascists and Communists, Jews, anti-Semitism in a mishmash of observations in order to plant the seed that somehow there was a connection between these elements and Social Credit.

To his everlasting discredit in so far as knowledge and truthfulness is concerned Professor Clark makes the following *faux pas*:

> . . . the new government cabled an urgent request to Douglas to come and put his ideas into practice. Douglas asked that a large sum of money should be placed to his account in a bank – in spite of all that he had written about banks. But even then he hesitated. Finally he brought out the racial line. The racial purity of Alberta, he said, had been contaminated by settlers from Central Europe, and the Provincial government could not be expected to understand the pure principles of Social Credit.
>
> Slightly disillusioned, the Albertan Government sought other advisers. It was quite clear that the Canadian Constitution made currency and banking subjects for Federal, not Provincial legislation.[80]

What Clark neglects to mention is that Douglas had given advice long before the elections of the Constitutional problems that would be faced with respect to Constitutional limitations:

> The power of printing legal tender money, or that which passes as money, undoubtedly belongs to the Dominion, [not the Province – Author] and has now been delegated to the Bank of Canada.
>
> Therefore, if it be contended that the Provinces have no power to issue credit instruments, the phrase "the sole credit of the Province" has no financial meaning, although it may have a realistic meaning. In this connection, I should like to acknowledge the valuable assistance of Mr. Gray of the Attorney General's Department, and the Brief kindly submitted to me by Mr. Herbert C. Boyd, M.A., LL.B., of Edgerton, Alta., both of which informations so far as they go, seem to confirm my own view of the position.[81]

CHAPTER XVII

Michael F. Bleaney is the author of *Underconsumption Theories: A History and critical Analysis*.[82] He is another critic to add to the list, mainly because he is often quoted by other critics,[83] and his closeness to Marxian economics. He makes a very poor attempt (pages 205-6) to disprove the A plus B Theorem by simply dismissing it as a simple mistake of double counting. Such simplicity is extraordinary in view of the lengthy verbose attempts by his peers to "disprove" it. He also makes a grave error, as did other critics in referring to Douglas' work as relating to underconsumptionism.

There is a vast difference between a shortage of purchasing power and underconsumption. Underconsumption can mean that goods are available but people cannot purchase them or goods are available and people do not want to purchase them. On the other hand people may have sufficient purchasing power but production of consumer goods exceeds their requirements. Bleaney or any of the other claimants to this false accusation on the A plus B theorem makes no such distinction.

Mr. Bleaney referring to Douglas's work says:

> Underconsumption comes into it at the point where he claims that the total national income is insufficient to buy the total national product.

There is no need to go any further into what Bleaney says, as it is obvious that he is attempting to put orthodox terminology into Social Credit language with respect to the Theorem. The theorem says absolutely nothing about "total national income" or "total national product". Both of these terms are used in Keynesian economics in relation to National Accounting and by the very nature of their (incorrect) definitions are always in balance. The premise on which he bases his argument is wrong so there is little need to continue discussing the rest of his incorrect assumptions.

Douglas Fallacies – A Critique of Social Credit[84]

This is the title to a book, which was reviewed, believe it or not in 1988 in the Winter edition of *Britain and Overseas* published by the Economic Research Council. The review was published over the initials of "J.B.", and it is unknown as to why it should have appeared at that stage. The late Dr. Geoffrey Dobbs who at one time had served on the Social Credit Secretariat wrote to the publishers of the *Winter* 1988 digest and his letter is reproduced here:[85]

> **DOUGLAS "FALLACIES" HISTORICALLY VINDICATED**
>
> Sir, I am intrigued to see that you can find room (Winter 1988 issue) for a 53-year old denunciation of C. H. Douglas and Social Credit, which is little more than socialist propaganda. It is not surprising that Dr. John Lewis's book showed no grasp at all of what Social Credit was about, since, in so far as Douglas dealt with economics he started at the other end from the money system, that is with the *real* economics of production, distribution and consumption, of which he, as an engineer, and most of his followers as practical men, but few economists or financiers, have experience.
>
> From this viewpoint, everything is very properly seen upside down, and money comes into it only as an essential, but secondary, accountancy device for *enabling* what can be done, and what people as consumers want done, to be realised. This is the opposite of the accepted view of money as a means of control and manipulation of the economy, and the lives of most people with it. In the same way accepted economics seeks maximum employment of men, energy and resources with maximum growth of the economy and maximum export surplus, while Social Credit seeks to minimise all these to the full extent compatible with the efficient delivery of the required product to the satisfaction of all in their primary function as consumers, without which any "economic" action is pointless.

From the "orthodox" viewpoint, as quoted from Lewis (p. 27) "The difference between the total output and what is consumed is of course the nation's saving." In *real* economics that amounts to saying that the vast mountains of wasted and unwanted products constitute "savings", which as usual is the reverse of the truth as seen by Social Crediters. But facts in the real world are seldom allowed to penetrate into the economics of debt-control.

Over 60 years ago Douglas pointed out that "a continuous rise in the cost of living absolutely *must* take place" (roars of ridicule from the "orthodox"); that debt must rise progressively and that economic war to "capture" markets and impose unemployment on other nations *must* result in military war. (Nonsense! Rubbish! from all the pundits) That was in 1934. It is evident that he will never be forgiven for being right.

As for his crime in pointing out the obvious truism that there is a growing time-lag between incomes and prices which can be met only by debt, inflation, export surpluses, or bankruptcies, under present arrangements –all of which are socially traumatic – the only answer seems to be louder and more pejorative noises and the spreading of the idea that he wanted to "stimulate demand", which would be "inflationary" at a time like this when we are suffering from excess of consumer debt.

This in fact completely proves his point about the deficiency in *today's* (not tomorrow's mortgaged) purchasing power, though when he made the point "consumer credit" was virtually unknown. And just look at who is accusing Douglas of "inflationism" – the economists under whose advice the £ and $ and most other currencies have denigrated to about a fortieth of their value, and are devalued every year with the rate now being merely slightly varied – by manipulating the rates of borrowing. And just how could it be inflationary for people to be able to buy what is produced out of income rather than mortgaging their future incomes at the current usurious rates of interest? Dare anyone now deny that, as Douglas said, price-inflation is a *built-in* property of the money system?

> Ah well! I know after long experience that these arguments seldom make any impact on those who see economics in terms of money as the limiting and controlling factor. There is simply no contact, and their criticisms are like denunciations of the helicopter as an absurd motor car. The only critics who are on record as seeing Social Credit as what it really was were the Webbs, who said bluntly: "We don't like your objectives. Mr Douglas! " But as an ecologist (long before the "Greens") I keep hoping that some day reality will somehow break in before we have made this planet uninhabitable by a species that lives in a monetary world of the Never Never.

GEOFFREY DOBBS, Bodifyr, Lonpobty, Bangor, Gwynedd.

Economics For Engineers

In December 9, 1988 issue of *Engineers Australia* an article appeared under the title of *Engineers and economists have lessons for each other*. Dr. David Clark who holds a B.Ec. with first class honours and a Ph.D. in economics from Sydney University authored the article. Apart from other activities he is also the author of *Student Economic Briefs*, a publication that was financed at that time and presumably still is by the *Australian Financial Review* and the Commonwealth Bank.

With such a distinguished background it is somewhat bewildering why Dr. Clark should indulge in the nonsense and emotional language used in this article. In introducing his attack on Douglas and Social Credit he said:

> The dangers of not taking economics seriously were well illustrated in the inter-war period, when many Australian engineers, particularly mechanical and civil engineers and their professional bodies, fell under the spell of a real economic *snake-oil merchant* [Emotive words again – Author], English engineer Major Clifford Douglas, the founder of the Social Credit Movement.

> Overseas, his followers ranged from the "Red Dean", the Very Reverence Hewlett Johnson, Dean of Canterbury, through to the neo-fascist Ezra Pound. In Australia, they were found in all major political parties and social groups from the Communist Party to the New Guard. He even had a "cell" in the Killara Golf club. Tens of thousands of his books and pamphlets sold in Australia during the inter-war era. Indeed, I would be very surprised if many old readers of this column do not have one or two mice-stained Social Credit style items on their bookshelves or in their garages.[86]

In a similar vein to his other "expert" critics Dr. Clark has to resort to emotional, distasteful and personal remarks and an attempt to link Social Credit with people who were totally opposed to the philosophy of Social Credit. The fact that many attached themselves to the monetary aspect is something beyond the control of Social Crediters but it does not make them Social Crediters. "Snake-oil merchant", "cell", "mice-stained" is what one would expect of someone who had no real answer to an argument, but coming from a person who claims a position in academia it is a conceited effort to establish a position of self importance. This is what could be expected from someone who has an inferiority complex.

The usual garbage on the A plus B theorem is included in his article and will not be repeated as it is the same as all preceding critics. However, like all of his predecessors he chooses to involve himself in fabrications of what Douglas has said:

> Why Douglas had such a strong following among engineers in Australia was probably because he offered a seemingly simple means of funding massive engineering projects . . . Douglas was the ultimate social engineer. A new money machine and appropriate pulls on the right levers would solve all social ills.

The reader need not be bored with any further comment on such utter drivel. However, Dr. Clark, although he considers Social Credit and the A plus B Theorem nonsense and irrelevant, cannot control himself in continuing his snide remarks. Perhaps he believes it is his duty to protect society from snake-oil merchants that he and his colleagues have not been able to dispose of. Responses to his articles in the Engineers journal were sufficient to show that engineers were not in agreement with him and also took exception to his language. As one of the responses said in part;

> One wonders what evidence Dr. Clark has for his claim that engineers were more enthusiastic in their support for Douglas' Social Credit than were other sections of the educated community. It was certainly clear that the orthodox economic tactic during the depression – shortening credit and lowering wages – only acerbated the depression. One doubts if Social Credit could have been worse than that. It would be salutary for Dr. Clark to convey his warnings about "snake-oil" remedies to his fellow economists . . . .

We leave Dr. Clark with his comment in his *Student Economic Briefs – The essential reference for students of Economics. Finance, Business Studies, 1994/95,* page 164:

> The Great Depression of the 1930s stimulated underconsumptionist views again, with radical left-wing and right-wing writers both arguing that it was largely a product of the "banksters". For example, very similar tirades against banks can be found in Hitler's *Mein Kampf* and radical leftwing socialist material. In Australia, the most influential critics were the "Social Crediters", who believed that banks were the prime cause of the Depression. (See Clark, 1985, for a critical discussion of this literature). Such views survive in the 1990s, particularly on late-night radio programs and in the fringe left- and right-wing groups.

This is not the sort of material that one would expect in an economic textbook for students unless the writer wished to disseminate some propaganda.

The above comment was contained in a chapter titled Banks, Bank Bashing and Business. It is not understood what the comment had to do with business but considering that the Commonwealth Bank financially supported the publication it is not surprising that a little propaganda on behalf of the banks would not go astray. His reference to himself for a critical discussion is self-flattering. Much of what he said about the so-called followers is contained in the reference he gives to himself. He uses the same denigrating language, for example:

> . . . he (Douglas) worked at the Farnborough Aircraft Factory where, while working in the pay office, he "discovered" a 'mysterious' relationship between costs of production and wages.

Following these disparaging remarks, again like other detractors, he gives his own mangled version of what the A plus B Theorem means. He then, naturally refers to Maurice Dobb, previously discussed, "who penetrated the mystique of Douglas's simple algebra by using an analogy of tickets being sold on a train." The simple answer is that it has not yet been disproved, against which some critics like Mr. Docker complained because they did not understand differential calculus.

Dr. Clark contributed two articles in *The New Palgrave Dictionary of Money and Finance*. One was titled *Monetary Cranks and Social Credit* and references in both included amongst others, references to Cole, Durbin, Soddy, Dobb and McConnell.

Major Douglas and Social Credit: A Re-Appraisal[87]

As noted in the Bibliography reference this was the latest version in 1996. Considering that it has appeared as a paper from academics it can be expected that some degree of respectability would be or should be applied in any discussion on a subject.

There appears to be an attempt to present a balanced argument but unfortunately although certain facts are presented in the form of abbreviated quotes, which in themselves as presented may be correct, the conclusions drawn from the subsequent comments negate the truth and correctness of what Douglas was saying.

As it is the intention here to focus attention on the criticisms as with the previous critics, the rejection of this paper will take into consideration only a few samples of its contents:

> . . . the standard texts in the history of economics usually either ignore him completely, or give him a passing mention (often critical and condescending), or dismiss him as a crank, a “funny money” man, a monetary heretic . . . lf Douglas is remembered at all by academic economists today, it is probably because he received two brief mentions from Keynes in the *General Theory*.[88]

Douglas was not an economist, nor did he make any claim to be of that profession so it is understandable that he would not be included in textbooks. He would not be included also because of his complete opposition to what economists were saying in publicly denouncing him. The very next statement, which is true, verifies the reason why he was dismissed. As stated elsewhere in this book the opposition was not simply on the grounds of economics but of philosophies.

> This paper argues that although some of Douglas’s ideas are curious aberrations in the history of economics, and deserve to be ignored, there are other ideas in his system which could be relevant to the economic problems of today.[89]

Curious aberrations? In the history of economics? The first remark is an opinion based on the grounding of the writers of the paper in orthodox economics.

Of course it would appear odd, abnormal or peculiar to someone who has a closed mind and who cannot understand. It is like the comment about Mr. Hawtrey. Someone who has never seen a giraffe, when suddenly confronted with one says, "I see it but I don't believe it." Why would it be even considered in the "history of economics" when it does not conform to the accepted halls of the orthodox, like many scientific and medical discoveries of the past.

> Section 1 contains a brief outline of the three idiosyncratic ideas which are mainly responsible for Douglas's reputation as a monetary crank – his A + B Theorem, his National Dividend and Rebate, and his conspiracy thesis.[90]

Idiosyncratic? Do they mean peculiar, eccentric or distinctive?

The tone of their paper would suggest that they mean peculiar, eccentric. Somewhere hidden in the undertones of this statement is a logical fallacy. The logic of the argument is that "Douglas was peculiar and eccentric," "Some eccentric and peculiar people are monetary cranks" and "Therefore, Douglas was a monetary crank."

There are three things that stand out in the paper by Pullen and Smith. One is the constant use in referring to Douglas of the term "socialisation of credit", and the use of the term "rebate" to describe the National Dividend. The other is the continued false linking of Douglas through his A + B theorem, which ". . . was in effect asserting, in common with other underconsumptionists over the years, but for his own peculiar reasons, that supply does not create its own demand."[91]

In the Section 2.3 headed "The Socialisation of Credit," they provide a reference No. 5 to explain what they mean:

> We use the term 'socialisation of credit' (or 'credit socialisation' or 'socialised credit', or 'socially created credit') to refer to the concept that the moral and legal right to create credit ought to belong to society, not to private individuals or private banks; and we make a clear distinction between the 'socialisation of credit' and 'Douglas Social Credit'.

> We use the term 'Douglas Social Credit' (or 'Social Credit') to refer to the full array of ideas contained in Douglas's scheme – which includes not only the socialisation of credit, but also the A + B Theorem, the conspiracy thesis, etc.

The term "socialised credit' to which they refer on page 13 of their paper contains a reference to the use of the term by Douglas in a reply to Mr. J. A. Hobson.[92] One of the great problems that face those who desire to analyse Social Credit and what Douglas said eighty years ago is the change that occurs in the use and meaning of words. Whilst Pullen and Smith have attempted to make a distinction in their understanding, they have stated quite clearly that 'socialisation of credit' is included in the "full array of ideas" of Social Credit.

The distinction which should have been made, is one between philosophy and policy. What Douglas said in the reply to Hobson was, ". . . this is not an argument for nationalised banking, which, like all 'nationalisation', is an *administrative* [emphasis added – Author] measure, it is an argument for socialised credit." In the first instance there is a distinct difference between administration and policy. In the second instance there is a difference between policy and philosophy. Social Credit was described by Douglas as *The Policy of a Philosophy*. It is a *particular* Policy of a Philosophy. The philosophy in this circumstance was, and is, a belief that the "credit of society" belongs to those individuals who through their mutual association form society. It does not belong to private banks.

The distinction between "nationalisation" and "socialisation" in the context of what Douglas was saying was the distinction in the relationship between the group and the individual. Pullen and Smith must have known Douglas's views as they have quoted from his speech to the King of Norway in Oslo on February 14, 1935 [see their references – Author]. In that speech he said,

> I am not myself, for instance, an advocate of the nationalisation of banks. I believe this again to be one of those misapprehensions, so common in regard to these matters, for the nationalisation of banks is merely an administrative change: it does not mean a change in policy, and a mere administrative change cannot be expected to produce any result whatever in regard to this matter.[93]

Social Credit has been referred to as "Socialised Credit" on many occasions giving the impression that there is a connection with Socialism, which is the complete antithesis of Social Credit. But then, it cannot be overlooked that nationalisation of banks was and probably still is a socialist objective. The apparent objective in the use of the term "socialisation of credit" is perhaps a means to muddy the waters a little in view of recent suggestions that Social Credit had its origins in Guild Socialism and possibly in Fabian Socialism, which would be emphatically denied by any Social Crediter with a knowledge of the background and history of Social Credit.

The word "Rebate" is not synonymous with a discount to the producer, although Pullen and Smith have used it in this context in the paper. A rebate may be described as a deduction on an amount to be paid, a discount or a drawback. Whilst the operation of the compensated price mechanism would entail a reduction in the retail sale price or the application of a discount, it is much more than that. A rebate may constitute a part or whole of an amount paid involving two parties, whereas the Compensated Price involves three parties, based on a definite percentage of the retail price. This is not the place to go into detail on the Compensated Price mechanism as it is explained fully in other literature. It is discussed simply to show that writers, not just Pullen and Smith, do not understand and infuse their own interpretation based on their limited knowledge of the subject or for other reasons.

Douglas used the word rebate[94] in his address to the World Engineering congress, Tokyo in 1929, when he said:

> Articles might be sold at cost *plus* profit as at present, and a rebate to the purchaser be made through the banking system, representing the difference between the apparent cost and the true cost. The source from which this would be made would be exactly the same source from which at present the banking system creates money out of nothing, that is to say a book entry based on the security of a country considered as a producing mechanism.

It is obvious in this statement that the *purchaser* is not the *producer*. A rebate may be paid to anyone of two parties in a transaction and in the case of the Compensated Price it may be paid to the purchaser to increase purchasing power or to the retailer to compensate for selling below his financial cost, or to a producer to reduce financial costs.

Of course what is completely overlooked and never discussed in any of the criticisms over the decades is the difference between financial cost and true cost in physical terms which in the final analysis is the *real* cost.

It is quite evident that critics always regard arguments against the National Dividend and the Compensated Price in isolation. If the critics were to consider these two aspects together it would obviate the nonsense that has been regurgitated over and over and again. Pullen and Smith however take a slightly different approach in discussing the criticism of Professor L. Robbins on what they refer to as Douglas's credit policy. They quote Robbins:

> It is easy to see that if credit were issued on the lines suggested, the condition of the area in which the experiment was made would soon be as bad as that of Germany during the worst stages of inflation.

arguing,

> He [Robbins – Author] did not consider that Douglas's case for credit socialisation could be argued independently of his A + B Theorem, and did not address Douglas's argument that if government-issued credit were a *substitute* for credit issued by private banks, and if the credit were issued in a situation of less-than-full-employment, it would not necessarily have inflationary consequences.

They could well have argued, "if the credit were issued in a manner and at a time complementary with the application of the Compensated Price." All things being equal, if the credit was issued as a *substitute* for the banks lending, and was based on a formula much more in line with reality than on the banks lending, two things could be achieved. The new credits would not enter into costs and therefore would not have any effect on prices. At the same time it would break the cycle of increasing debt. If the Compensated Price was applied whereby prices to the consumer would be reduced at the same time, inflation would have to take on a new meaning, because there can be no inflation without a rise in prices. In addition the new credits applied to either or both the National Dividend and the Compensated Price would not be an addition to the money supply *per se* as envisaged by the critics. In any case Pullen and Smith were aware of Douglas's speech *Money and the Price System*.[95]

When we come to the question of "underconsumptionism" we find that Pullen and Smith are continuing in the same error as those of their predecessors. The distinction between the reasons for what is called underconsumption has been dealt with previously, but there are a few factors that should be taken into account in analysing the paper by Pullen and Smith.

Arguing against the idea of the Compensated Price application which they mistakenly refer to as a rebate they say:

> The alleged non-inflationary feature of the Rebate is also unconvincing.

> Douglas believed that the inflationary effects of state-created credit distributed to producers in the form of a Rebate would be exactly offset by the price reductions that would be the condition for receipt of the Rebate. But he did not seem to appreciate that the payment of a Rebate would reduce (or even entirely eliminate) any incentive on the part of producers to hold down costs or to take cost-cutting initiatives.[96]

This statement is a clear indication that Pullen and Smith had no idea of the operation of the application of the Compensated Price (not a Rebate) system. It was never stated to be in the form of "state-created credit distributed to *producers,* in the orthodox meaning of "producers".

Although there are many other aspects that could be discussed concerning this paper, two final comments might be sufficient. After discussing the alleged inflationary effects mentioned above Pullen and Smith say:

> It would be virtually impossible for the public officials charged with administering the Rebate to determine whether or not the costs being incurred by every firm and for every product were justified. If any increased costs are covered by the Rebate, firms would have no reason to resist claims for higher wages or higher charges for other inputs.

Douglas did not rule out the possibility that there may need to be a check on prices to prevent any exploitation. On the other hand if any competition exists there would be an incentive for a firm not to increase prices. However the interesting point is the suggestion that it would be virtually impossible to administer the Rebate because of these possibilities. For years in Australia, for example, there have been numerous rates of Sales Tax applicable for a variety of goods and for which monthly returns were required to be supplied to the Taxation Office.

If one looked at the suggested scheme for the application of the Compensated Price as a negative Sales Tax there would be no necessity for extra public officials and this would present less of a problem.

Nor have they taken into account Douglas's answer to the criticism concerning whether cost increases were justified, as contained in the Draft Social Credit Scheme for Scotland. Again this was simply a suggestion of how one method could be adopted. The important point is that in the section *"Assisted Price" for Registered Businesses,* it is interesting how this suggested operation resembles the requirements under the new GST legislation enacted in Australia to come into force on July 1, 2000. Douglas said:

> (5) . . . an announcement to be published that any or all business undertakings will be accepted for registration under an assisted price scheme. The conditions of such registration will be that their accounts, as at present required under the Companies Acts, should contain an additional item showing the average profit on turnover, and that their prices shall, as far as practicable, be maintained at a figure to include such average profit . . . .[97]

Pullen and Smith in explaining their position include in their Note 3 the following rationalization and in addition call upon the previous mentioned David Clark to support their claim:

> 3. The Rebate scheme would also involve enormous administrative problems and costs. Douglas proposed that every business be registered [as is currently being enforced under the legislation in Australia for the implementation of the Goods and Services Tax (GST) – Author] and should submit a monthly [as is required currently under Sales Tax legislation although not audited) audited statement of costs, from which the adjusted price would be calculated after applying the Rebate.

> But this would mean that the new calculations would be required whenever costs changed; and a multi-product firm would be required to apportion its overall costs amongst its various products. As David Clark (1987) has said; "The antisocialist Douglas appeared oblivious to the fact that his scheme would have required an army of inspectors to fix and supervise the huge number of individual price reductions involved." Douglas also appears to have underestimated the administrative difficulties involved in distributing a National Dividend. It would be no easy matter in a populous country to ensure that every man, woman and child received the Dividend; that no one claimed more than one Dividend; and that the register of Dividends was adjusted in accordance with births, deaths, immigration, emigration, and changes of addresses.

Pullen and Smith have conveniently overlooked or deliberately ignored the current operations of the Tax System in Australia, or the operation of the Social Services or Veteran Affairs Department in dealing with Age Pensions, Disabled pensions, Widows Pensions, War Pensions, and a myriad of other benefits including unemployment, *etc*. Their article was written prior to the proposed introduction and operation of the Goods and Services Tax to be operative from July 1, 2000 and the complicated mechanism involved not to mention the myriad of amendments that occurred in explaining to the general public and professional bodies the anomalies that had to be addressed. At the time of this writing these amendments were still occurring. Pullen and Smith write:

> There is some doubt about Douglas's final commitment to the policies of a National Dividend and a Rebate. Although in his earlier writings the commitment appeared to be firm, he indicated in one of his later speeches, perhaps because of a growing awareness and acceptance of the logic of his critics, that his policy proposals were merely suggestions.

There seems to be some confusion in their minds as to the difference between the policy of Social Credit as outlined by Douglas and the methods by which they may be implemented. There has never been any doubt that, given the flaw in the financial system, which is illustrated in the A + B Theorem, that there has been and is a continual increase in debt as evidenced by facts. The policy, that is the introduction of a change in the National Accounting to rectify this flaw has not changed. The suggestions for the introduction of a National Dividend and a Compensated Price system have not changed. The methods by which they may be introduced may vary.

The policy of Social Credit has always been governed by the philosophy. It is quite clear that many critics have indicated through their writings that they have not carried out their research sufficiently. They have neither familiarised themselves nor proceeded to understand this fact. Those, who have chosen not to become *au fait* with this fact, we can dismiss. On the other hand those who have been most vociferous have also revealed, through their associations, that their opposition is one of an opposing philosophy, *i.e.,* collectivism. To put this clearer and in proper perspective they could have read what Douglas actually said.[98]

In *Economic Democracy,* Douglas wrote:

> . . . the policy suggested in the foregoing pages is essentially and consciously aimed at pointing the way, in so far as it is possible at this time, to a society based on the unfettered freedom of the individual. . . .[99]

Douglas made it quite clear that the methods that may be adopted to facilitate the National Dividend and the Compensated Price could vary. Whilst both of these endeavours were essential because they flowed from the A + B Theorem it was possible that different ways of achieving the results required could be achieved other than his suggested ones.

> Many methods will suggest themselves for putting into operation the foregoing principles.[100]

We leave Pullen and Smith with the following observation on what they say about Douglas and Hobson.

> On his second durable theme (technology-induced long-term unemployment), Douglas was again apparently unaware of the existence of predecessors and/or contemporaries such as D. A. Weiss, J. A. Hobson, and Rexfor Tugwell, who also addressed the problem. (page 25)
>
> The year 1922 saw an interesting exchange between Douglas and J. A. Hobson. In addition to being a member of the Labour Party committee which reported in 1922 [completely incorrect – Author], on the Douglas scheme, Hobson criticised Douglas in the *Socialist Review*.
>
> Douglas replied to Hobson in a following number of the *Socialist Review*.

It is most unusual to be engaged in a debate with someone of whom you were unaware. Hobson did devote chapter VIII to *The Douglas theory* in which he made this astounding comment to which no further comment will be made except to say, "Forgive them for they know not . . . ."

> I agree with him in attributing trade depression to the failure of consumption, or effective demand, to keep pace with potential and actual production. The full product cannot be produced because, if produced, it could not be marketed at the price required under our actual system to make production profitable.
>
> But Major Douglas and his followers give a different explanation of the failure of this effective demand from that which I should give.

> I trace this failure, not to any lack of the monetary power to purchase all the commodities that could be produced, but to the refusal of those in possession of this power of purchase to apply enough of it in buying consumables, because they prefer to apply it to buying non-consumables, in other words, to buying capital goods.

In other words, people, during the depression, were content to starve and queue in soup kitchens because they preferred to purchase capital goods (Plant and Equipment, *etc*.).

There are many more instances of grave misinterpretations, errors in understanding as well as deliberate untruths both in the literature of the critics mentioned in this book and as well in others of a minor nature. It is neither possible nor desirable to attend to each, as it is only necessary to show one error, one false premise and the rest of their arguments can be discarded. The fact they continue to "borrow" and quote from each other is like a balloon being blown up with a lot of air. The reasons are discussed in the final Chapter.

To conclude, there is one quote that is favoured by many critics and that relates to their guru, whom Douglas dismissed with ease by pointing out the false premise on which his theories rested. The quote referred to is contained in his *The General Theory of Employment, Interest and Money* and has been the basis on which National Accounts have been formulated, *i.e*. Income = Value of Output. Douglas dealt with this simplistic notion in *The New and the Old Economics*. This small publication was first published in 1932 and was written as a critique to a publication *Facts and Fallacies of Douglas Credit* by Professor D. B. Copland who supported Keynes by showing a diagram that purported to "prove" that consumers' income and producers' costs are in equilibrium.

Professor Copland quotes J. M. Keynes from Keynes's *Treatise on Money:*

> Let *x* be equal to the costs of production of all producers. Then *x* will also be equal to the incomes of the public.

Douglas refuted this by stating,

> This is the well-known logical fallacy known as *petitio principii*, which consists in assuming the truth of the fact which you have set out to prove and then proving the assumption from the logical conclusion. The cost of production is *not* equal to the incomes of the public, and therefore the rest of the argument merely indicates what would happen if it *were* equal.

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CHAPTER XVIII

THE FINAL CHAPTER

For those who have managed to wend their way through the preceding chapters it should be self evident that there is one continuous thread. This thread winds its way inextricably through each of the criticisms and reveals the truth of the statement by Douglas that Social Credit is a Policy of a Philosophy.

What has been presented in these accounts, which sometimes may appear to be superfluous or lengthy, shows without doubt that opposition to Douglas was based on grounds contrary to what, in reality they purported to be. The concepts that he prevailed upon to draw attention to the necessity to rectify what he saw as a flaw in the financial system, was not the real reason for opposition. There were many characters of minor importance, letters to editors of newspapers and other papers, letters to the *New Age* publication, letters to Douglas himself, and in addition some small publications whereby the authors wished to make a name for themselves. These have not been included in this critique for they have since disappeared into the time warp of inconsequential carpings that subsequent time elapses have shown Douglas to be correct.

It is not without some deep understanding of the situation that Douglas referred to Social Credit as *The Policy of a Philosophy*. In his first major publication, small in literary content and yet profound in the nature of its content, Douglas drew attention to what he considered to be the most important aspect. This was the relationship between the individual and the group. It is this aspect that provided the basis for the opposition from those leading economists, academics, politicians and other political figures who knew exactly what they were doing. At the same time, then, and even today, there are those who criticise Douglas and Social Credit allegedly from an economic and financial viewpoint but in reality from a different philosophical position.

To this we can add the confusion amongst those would-be Social Crediters who are only interested in monetary reform and do not have any understanding or inclination to understand the philosophical doctrine as it affects the proposals of Douglas and Social Credit in general. It is little wonder that progress in achieving the acquisition of benefits to the individual in society from the associations formed in order to obtain a better quality of life has been denied.

It is not necessary to traverse the contents of the various enquiries that Douglas attended nor the people involved but to concentrate on those who attacked Douglas and his proposals on an individual basis. Those persons who require attention do not involve those who later retracted their argument, modified it or who chose to ignore Douglas and his proposals except for some offhanded comment such as that attributed to Lord Keynes who is on record as having acknowledged the strength of Douglas' argument. His position can be classified under the heading of those economists who closed ranks on outsiders who dared to question the correctness of the principles of orthodoxy as was being taught by that illustrious profession. Professor Galbraith is included in that group.

In the preceding pages reference has been made to a number of works and criticisms by various authors. Although mention has been made on the background of some it is well worth repeating in a more condensed and concise manner the significance that may be given to their criticisms. Emphasis has been given to the fact that Social Credit has as its basis a philosophy. It is of little importance to argue on technicalities of policy unless there is an agreement on the philosophy, which forms their basis. In other words the objectives that may be envisaged by Social Credit will be contrary to those who have a different philosophy and therefore a different agenda.

Douglas drew ire and condemnation from people who were opponents because of their particular philosophies that can be readily ascertained from their associations in organisations and groups which held aspirations which were completely contrary to those of Douglas and his proposals for enhancing the benefits that should be available to people as a result of increments derived from their efforts and activities in association.

Douglas recognised that the *"primary* purpose for which men work is food, clothing and shelter." It was on this basis that his ideas came to the attention of persons who were influential within the Labour Party in the U.K. and efforts were made to counter the attention and following that were becoming evident within the Party in support of his proposals.

Writing in *These Present Discontents and The Labour Party and Social Credit, h*e said:

> Some sixteen months after its constitution, the Committee set up by the Labour Party has presented its Report on what it terms the Douglas-New Age Credit Scheme, by which presumably is meant the Draft Scheme for the Mining Industry. It is an important Report, not as containing any contribution to the solution of the problems with which it purports to deal or as advancing any valid or competent criticism of the principles or details of Social Credit, but rather as a concrete instance of the defective working of Labour Party organisation; defective, that is, in the sense that *the aims of the rank and file and the Central Executive have not so much in common as those of the Central Executive and their alleged adversary the 'Capitalist'*.[101] [Emphasis added – Author]

One of the members of the Committee was Mr. J. A. Hobson who had been dealt with by Douglas in a brief and conclusive response to an article published by Hobson. Professor Galbraith in reply to a question by French Author Nicole Salinger makes reference to Hobson, saying:

> In all countries – Germany, the United States, France, even Britain – there has always been a small group of economists that lived outside both the Marxist and the neoclassical traditions. In Britain the most famous was J. A. Hobson, from whom Lenin drew a great many of his ideas. And generally, *the Fabians, the intellectual guide and conscience of the British Labour Party*.[102] [Emphasis added – Author]

Another member of that Committee was Sidney Webb who was an eminent Socialist and one of the founders of the Fabian Society. A general bonding between people and organisations is evident with the Fabian Society, the Labour Party and Sir Ernest Cassel, the benefactor of Webb in establishing the London School of Economics. Sydney Webb became the Rt. Hon. Sydney James Webb, P.C., O.M., Secretary of State for the colonies 1929-31, and for the Dominions, 1929-30. He became the President of Trade in the first Labour Government in 1924, founded (1913) and edited the *New Statesman* (a Fabian paper) until 1922, and was raised to the peerage in 1929 (a 'good' year) as Lord Passfield.

G.D.H. Cole was another member of the Labour Committee that was responsible for the Report *Labour and Social Credit: A Report on the Proposals of Major Douglas* & *The 'New Age* '.

An interesting comment reported in the press in 1922 provides an observation into the mind of those at the helm such as Mr. Cole with a quote from the *Guardian* quoting Mr. G.D.H. Cole, following Labour's success in the election:

> The Labour movement lives on ready-made clothes, ideas imported from abroad, and is the pale wrath of a dead thought; the Communist Party is a failure; the I.L.P. is played out the S.D.F. as a mere haven of refuge for Socialists ill at ease in other groups; the Fabian Society a mere table wrapping from the dead; and the guild socialists almost non-existent as an effective force.[103]

What is interesting is that all of the groups that are mentioned contained people who were in the Labour party including himself. Perhaps the Brer Rabbit logic was coming into play as indicated by the comment of the writer of the article. "In other words, let us applaud Labour if only because, through lack of will, courage, and creative thought, it has maintained everything save its own principles!"

A note on the flyleaf of *Practical Economics* by G.D.H. Cole, published by Pelican Books 1937, has this to say about the author:

> [He] began his career as a philosopher, and taught philosophy in Durham University. Becoming conscious of the fact that he was talking nonsense, he diverged into economics . . . . Both Mr. And Mrs. Cole are active Socialists and have been for many years connected with the Labour Movement . . . .

In the final paragraph of this book he says,

> My final moral, then is that unless we want to convert the world into armed camps of impoverished peoples, we must plan for plenty – that is, for increased consumption – in ways which are quite inconsistent with the retention of the capitalist system.

Strange words coming from someone who with his colleagues were more familiar with the "Capitalists" than the rank and file they were supposed to represent. His remarks concerning the Fabian Society are quite inconsistent with his involvement with that very organisation. He was a member of the New Fabian Research Bureau (1931-5) and he was influential in directing the Labour Party Policy through his advocacy of a socialist planned economy and taught at the Oxford University.

Another member of the Committee, Hugh Dalton, should be accorded his correct title rather than by reference to just "Mr." Dalton. He is described in *The History Today Companion to British History* as,

> Hugh Dalton (Baron of Forest and Frith) (1887-1962), labour politician. Son of the domestic chaplain to Queen Victoria, Edward VII and George V, Dalton was brought up at court and educated at Eton and Cambridge.

One could be cynical in questioning his ability to be a representative of the working class. When he lost his seat in Parliament he took up a position in the London School of Economics in which he had taken a financial part in its establishment.

The irony of the situation was not lost on Douglas when, in an Appendix to his publication *These Present Discontents and The Labour Party and Social Credit, wrote:*

> If an attack were levelled at a treatise on the game of cricket on the grounds that the author's theory did not conform to the generally accepted views on stool-ball, it would be necessary to stress some general differences between the games, if for any reason an answer to such criticism were deemed to be desirable.
>
> To the extent that the Report is a reasoned, as distinct from a propagandist, document, it is a defence of the existing banking and financial system, and may reasonably be assumed to proceed from Mr. J. A. Hobson and Mr. Hugh Dalton ("Sir Ernest Cassel" Reader in commerce, London School of Economics), with the assistance of the anonymous but experienced banking official. It will be understood that such a defence may be perfectly sincere – it is certain that every form of influence would be exerted to further the appointment of sincere advocates of such views. It is necessary to emphasise this point in order to make it clear that the official Labour Party has no fundamental difference of opinion with the existing financial system – it merely claims that its motives, intelligence and general equipment qualify it to work the same system better than the existing administrators, a point of view on which, no doubt, the public will form its own opinion. It becomes of interest, therefore, to gain a clear idea of the premises from which these critics proceed, and to isolate the vital fact that it is in the premises themselves and not alone in the deductions made from them that the Social Credit Movement (and, it is believed the best interests of nine-tenths of the population of every country, whether they be rich or poor) is in sharp opposition to the official Labour Party and High Finance jointly.

There is no doubt that in stating the position of the Social Credit Movement to be in opposition to both the official Labour Party and High Finance and at the same time linking both the Labour Party and High Finance Douglas had touched a raw nerve. It was the truth and the truth hurts. Douglas had indicated this position with his reasons for it prior to the formation of the Committee. The Labour Party had indicated its opposition to conditions laid down by C. H. Douglas and A. R. Orage which in a letter dated May 28, 1921, included a condition,

> (2) It shall be an indispensable qualification for membership of such a Committee that they shall have been, within the last five years, actively engaged in some branch of productive industry or the administration of it; and shall not be publicly committed to any specific scheme of social or industrial reform.

This was clearly unacceptable to organisors of the Committee.

In Chapter IX the background of Mr. E.F.M. Durbin was discussed and a reference will reveal his association with the New Fabian Research Bureau and therefore there is no need to cover this ground again.

Douglas more than adequately dealt with many other critics, those of any consequence who argued because they sincerely believed in their particular economic theory or who deliberately desired to gain some notoriety. It is more than an indictment of those who deliberately criticised Douglas and his proposals on the basis of philosophical differences. This approach was plainly dishonest and had no place in a genuine discussion which even today in the 21st century continues to produce similar adherents to policies governed by a philosophy which is not in the best interests of individuals in society.

Separate from the question of opposition on philosophical grounds there is the existence of the closed shop mentality. This had its origins in the establishment of Merchant Guilds, later in Trade Professions and in University disciplines.

It is beyond question that economists have resisted change to their beliefs because it would upset their equilibrium as well as having them admit that their earlier teachings were wrong and that they are in error. As a result, any challenge to their orthodoxy was met with strong resistance and in the case of Douglas, openly attacked. If anyone from outside their ranks of the University discipline offered solutions that contradicted their own they were regarded as quacks and heretics. Douglas was one of those heretics. The same opposition has been met in the field of medicine and science, navigation and other branches of learning even within their own ranks.

Professor Galbraith in his *History of Economics: The Past as the Present,* admits this tendency exists when he says:

> Those who benefit from the *status quo* resist change, as do economists who have a vested interest in what has always been taught and believed.
>
> Holding economics in the classical or neoclassical tradition, there is, first of all, the vested intellectual commitment to established belief. This is a powerful constraint. Few economists wish to reject what was accepted in their earlier education and subsequently defended and elaborated in their own teaching, writing and scholarly discourse. To abandon what they have learned and taught is to admit error; this we all resist. As we do, it may be added, the demanding thought required in accommodating to change. The latter, economists, far from uniquely, find inconvenient, even painful.[104]

Another group of opponents are those who are in the employ of those who are committed to the status quo for financial and career reasons. To openly agree with Douglas and Social Credit proposals could cost them their position whether in a University (as did happen with Professor R. F. Irvine, M. A., sometime Professor of Economics at the University of Sydney[105]), as an employee of a bank or financial institution, a public servant or even a politician in a political party.

The continuation of the push for more and more centralisation with globalisation and control by those with access to and control of the financial system is becoming more and more evident. The problems that existed and which were enunciated by Douglas have continued to worsen and still the Social Credit proposals are ignored. The growing awareness of the public to the problems created by the financial system is simply a manifestation of the increase and size of the problem. People and groups of all persuasions are offering solutions but none have offered a solution that can be accepted as being realistic or designed to offer the individuals in society the benefits that should accrue as a result of their associations.

What is certain is that the growing support for some of those who are offering solutions based upon a mere cursory examination of the problem such as those involved in some kinds of monetary reform, are philosophically parallel with those critics of Social Credit. Until that has been acknowledged and a genuine effort is made to adjust the financial system so that it reflects reality there is little that will or can be achieved.

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C. H. Douglas

Economic Democracy

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The Control and Distribution of Production

Social Credit

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The Brief for the Prosecution

The Alberta Experiment

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The New and the Old Economics

Reconstruction

Dictatorship by Taxation

The Approach to Reality

The Policy of a Philosophy

The Nature of Democracy

Money and the Price System

The Big Idea

A + B and All That

The Realistic Position of The Church of England

Security Institutional and Personal

Realistic Constitutionalism

Programme for the Third World War

These Present Discontents and The Labour Party and Social Credit

The Tragedy of Human Effort

The "Land for the (Chosen) People" Racket

The Use of Money

The Breakdown of the Employment System

The Monopolistic Idea

In addition to these publications C. H. Douglas wrote numerous articles in *The New Age* and *The Social Crediter,* the official Journal of The Social Credit Secretariat and other publications over a period spanning some thirty years.

His ideas can also be obtained from the various Government enquiries he attended:

The Select Standing Committee on Banking and Commerce, House of Commons, Ottawa, Canada, 1923.

The Macmillan Committee, United Kingdom, 1930.

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