

against financial policy correct, but that social poverty is unnecessary, and is in fact a crime against Society out of which the other questions of unemployment and war arise.

CHAPTER XII

THE PRICE OF PENURY :— AN ANALYSIS OF PRODUCTION COSTS AND PRICE-FIXING

PRELIMINARY

It is not logical to say that the price of scientific progress is economic poverty; nor that the cost of closer communion between the peoples of the world is economic war. However the mind prejudiced by preconceived ideas may regard the present economic organisation, he cannot, unless indeed he is wilfully blind, express satisfaction with the results of the present methods.

On the one hand applied science holds the key to unlimited wealth; further, new treasures are continually becoming available for the use of men. The conversion of this natural wealth, also, from the raw state to the form most useful to the consumer, is continually becoming easier :—

The continual tendency of scientific progress is to remove the burden of labour from men to machines, and to make their planetary home more and more one unit to their immediate consciousness.

Must the labourer therefore starve because his work may be done more efficiently by a machine? Such is not the policy of thinking men, and if such an effect

is imposed in practice, it must be because of a defect in a System that has passed beyond the stage of consciousness, and become to the minds of men an "inevitable,"—equivalent to the operation of a natural law.

Therefore when approaching the very core of the new analysis of "financial" economics, deliberate thought must be applied to the manner of approach. It must be remembered that on the other hand from the admitted triumphs of the productive sciences there is a darkness of individual poverty, misery, and degradation, and the rumblings of collective discontent and revolt.

Further, it must be emphasized again that the economic system is not a system into which the habits of men must mould themselves, but that it is merely the statement of those habits as interpreted by economic students.

If in the intricate and rapidly-expanding mechanistic civilization of the past century, the methods of control have had to be based on ready-made theories, it is permissible to criticise those theories by the effects of their application and, if their effects are seen to be poverty in the midst of a gigantic producing organisation, and struggle for the maintenance of disappearing foreign markets, every diagnosis of the defects of the system should be received with the proper atmosphere of scientific detachment, and if the remedy, as it were, is suggested naturally by a recognition of the disease, then it may be hoped that no class-interest or other unscientific prejudice should prevent the necessary amendment of the old and trial of the new method.

Some fundamental agreement is necessary to appreciate the force of an argument; it must therefore be taken as admitted that, if the element of "money" were entirely eliminated, and the produc-

ing system allowed to work at fullest capacity for the production of GOODS DESIRED BY THE COMMUNITY, and finally, if each individual were to become entitled to a proportionate share of these goods limited only by the extent of production, then indeed the words "poverty" and "want" would have no meaning to any citizen.

Assuming that this in theory is possible, Major Douglas identifies the flaw in the system which makes it impossible in practice, by the present method of distributing GOODS to individuals by means of money-tokens. This is the point (No. 9) which in Chapter XI summarized the effects of the present circulation of money, and it is advisable to state the argument of Major Douglas in his own words.

THE DOUGLAS THEOREM REGARDING PURCHASING POWER

Briefly, the point emphasized is that the purchasing power issued to individuals MUST be included in the cost on which Price is based, and that the cost includes OTHER PAYMENTS, the Price therefore always being greater than the purchasing-power available to meet it. The proposition as stated by Major Douglas was given in the preceding chapter, and must be repeated:—

"The Wages, Salaries, and Dividends 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 conditions 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."

There is contained in this theorem a dynamic conception of industry that is opposed to the static con-

ception commonly held, and this idea of "flow" has proved to be elusive to many students, primarily because they endeavour to approach the problem with the older method of attack. Major Douglas supports the theorem as follows:

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

Group A. All payments made to individuals.
(Wages, Salaries and Dividends.)

Group B. All payments made to other organisations.
(Raw materials, Bank Charges, and other External Costs.)

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

In further elaboration, he gives the actual cost figures of one industrial operation:

"A steel bolt and nut weighing ten pounds might require in the blank about eleven and a half pounds of material, representing, say, 3/6. The net selling

price of the scrap recovered would probably be about one penny. The wages value of the total man-hours expended on the conversion from the blank to the finished nut and bolt might be 5/-, and the average plant charge 150% on the direct time charge, i.e., 7/6. The factory cost therefore would be 15/11, of which 7/6 or just under one-half, would be plant charge. Of this plant charge probably 75% or about 5/7 is represented by the sum of the items which are either afterwards wiped off for depreciation and consequently not distributed at all at that time, or are distributed in payments outside the organisation, which payments must clearly be subsequent to any valuation of the articles for which they are paid, and do not affect the argument. Without proceeding to add selling charges and profit, it must be clear that a charge of 15/11 on the world's purchasing-power has been created, of which only 6/10 is distributed in respect of the specific article under consideration."

The conclusion drawn by Major Douglas is that if the purchasing-power issued by one factory in any one unit of time cannot buy the product of that factory during the same unit of time at the price which the present system necessitates, and if all factories must price their production in a similar manner, (as they do), the aggregate purchasing-power in the hands of individuals must always be less than the price of the aggregate production which it is expected to buy.

Thus the necessity arises to export goods, or to obtain new bank credits to buy the surplus, or to distribute new purchasing-power to the individuals of the community.

But such purchasing-power can only be distributed in return for work on further production and therefore creates a new "price" equal to itself.

" Thus it is that we find the whole industrial world, either glutted with unsaleable accumulations of stock or else plunged into a maelstrom of production, a mad striving of the various communities to earn, by producing goods, sufficient wages and dividends to purchase the accumulated production of the past, and being left ever farther behind in the race." (C. M. Hattersley, M.A. "The Community's Credit.")

DEFINITIONS

Knowledge of the actual operation of the financial system renders the main conception of the theorem quite intelligible, but some of the minor implications may require elaboration. It should be noted that the principal points regarding the issue and circulation of currency, set out in the preceding chapter, are crystallized in this statement of the fundamental defect of the system, and that the points emphasized arise naturally from the foregoing examination of the Money Trust and the impact of its policy on productive industry. The Douglas criticisms are statements of fact that must be accepted, and when accepted his interpretation of them follows logically. The following paragraphs illustrate the point; these are replies given to criticisms very often passed upon the theorem, to explain propositions, i.e.,

(1) THAT ALL MONEY IN THE HANDS OF INDIVIDUALS HAS BEEN IN FACT INCLUDED IN COST OF PRODUCING GOODS AND THEREFORE IN PRICE. This obvious fact is not always admitted, even when the method of issue of money has been examined. New money comes from the Money Trust, in the shape of bank loans; purchasing-power is distributed by industry. The principal sources of the incomes of individuals place the statements beyond dispute:—

WAGES AND SALARIES—

(a) In extractive, agricultural, and manufacturing industries are a part of the prime cost (wages) and factory or total cost (salaries) on which prices are based.

(b) In distributive trades, merchants, factors, wholesalers, and middlemen generally, are added to the purchase-cost of finished goods and included in price to the retailers; wages paid by the latter are included in the retail cost to the consumer.

(c) In transport, general and financial or commercial organisations, and professions, are issued from the charge levied upon either the vendor or purchaser of goods for distribution, and therefore are charged in Price,—or alternatively are issued from the payments received from individuals who transfer part of their previously-earned purchasing-power in return for services.

DIVIDENDS, INTEREST, ANNUITIES, AND PROFITS (OF SOLE TRADER OR FIRMS) can be classed as above, but obviously these cannot be realized in the case of businesses until the industrial process has been completed by the sale of the "Consumable" goods and receipt of the "price," while they do not become purchasing-power until actually issued to the individual. Such income, therefore, if from a business cannot be realized except from Price—and if from another individual (as mortgage or loan interest, etc.) is merely a transfer of income earned elsewhere from one to another.

RENTS.—

Of business premises or lands are included in cost as overhead expenses, and are recovered in price, and similarly agricultural rents and mining royalties are part of the cost-basis of price. Rents of private

houses and lands are merely a transfer of purchasing-power from the tenant who "earns" it from somewhere, to the landlord.

The remuneration of intellectual and artistic work must come from other individuals, and is therefore a transfer of purchasing-power earned in return for a service. It is not on record that any work of artistic or literary genius has ever been financed by the issue of a bank loan. The Cambridge professor receives his reward from a levy on the personal incomes of some individuals who have received it elsewhere as a profit or dividend, etc.

It is therefore correct to say that all purchasing-power in the hands of individuals has been issued from the producing system, as explained, and that an exactly equivalent "cost" has been included in the price of consumable goods. The last two words suggest another common difficulty, regarding the proposition—

THAT THE COST OF CAPITAL AND INTERMEDIATE GOODS MUST BE RECOVERED IN THE PRICE OF CONSUMABLE GOODS.

CAPITAL GOODS are best understood by the accountancy definition as all assets embodied in a permanent form (as opposed to stock-in-trade, etc.) and used for the purpose of further production. Land and buildings and public works such as roads, harbours, etc., are thus classified. In the case of businesses, such properties are usually acquired or built either by bank loans or by the investment of existing currency on the joint-stock principal. Therefore the costs of these properties are either a debt to the Money Market or to other individuals, whose purchasing-power has been reduced by a corresponding amount. But the sole economic justification of such properties is the production of goods required by the **INDIVIDUAL**,—consumable goods,

and since the individual cannot buy them in bulk, there is no apparent means of liquidating the debt:—but the method has already been described:—"Interest on Capital" and "Depreciation" to cover the wastage of the asset and recover from **PRICES** sufficient to replace it—are both included in the cost of whatever product the business deals in, and the price is consequently raised against either the intermediate manufacturer or the consumer himself.

In the case of Public Works the "cost of production" is received also either by bank loan or by the sale of bonds—Government or Municipal Securities, etc. On these interest must be paid, and a sinking fund created for their redemption. Both interest and capital cost are recovered by rates and taxes, (leaving Government or municipal trading to be regarded as a business in which only a deficiency or loss is recoverable by taxation), and these charges are included in the accounts of all businesses as an expenditure recoverable in *price*; in the case of an individual, part of the purchasing-power earned by him is appropriated as payment for the communal service represented by the charge.

But in either case it is obvious that the total cost of the property is included in **PRICE**, together with the inflationary conception, Interest, implying that the assets themselves (or the Capital embodied in them) have the power to create "new" money at a specified percentage. The logical outcome of all this is fully described in Chapter XI (How Capital goods are paid for twice).

INTERMEDIATE GOODS are familiar; they are those commodities which, by the specialization of industry, are the "finished goods" of one process and carried forward as the "raw material" of the next process, until they reach a shape and state of

direct use to the consumer. The various processes from the mining of iron ore through the furnaces, steelmaking, steelrefining, and so on until the minute springs of a watch are finally created from a part of the product, are obviously stages aiming at one result, the satisfaction of a consumer's demand. Equally obvious is the fact that the cost of every intermediate stage MUST be added cumulatively and paid for by the price set upon the finished product, because the price of that alone is the only point where the commodity is bought for CONSUMPTION, and not re-sold for profit.

CONSUMABLE GOODS therefore are priced to include the costs of ALL intermediate and capital production, because they are the only point where the element of financial profit is displaced by purchase for the satisfaction of wants. They are the turning-point in the circulation of money, as they must be paid for by "cash" in the hands of individuals that has been distributed by production and charged in cost, and is thus recovered in price.

The objection is sometimes made that the "circulation" or "efficiency" of money creates purchasing-power over and over again, but this is not correct. When twenty shillings are paid to a retailer for consumable goods he must use, say, eighteen of them to pay the wholesale dealer, who must pay the manufacturer, and so on back to the source. The "profit" made at each stage is not new purchasing-power; it is merely part of the consumer's 20/-, which has been transferred from him to another "consumer." When the "money" concerned is re-issued it bears *an equivalent cost*, and therefore is not an addition to relative purchasing-power.

PRICE-BUILDING

The truth of the Douglas theorem should be apparent, and its accuracy may be proved by reference to any figures recording costs of production and distribution, or any published accounts of manufacturing companies:—

(1) The cost of *one article*, as already given, shows that the amount distributed as purchasing-power must of necessity be less than the price-value created.

(2) Similarly, the figures for one article are seen to be reproduced when the financial values of *one factory* are considered as in the Trading and Profit and Loss Account for one year.

(3) Therefore, an Aggregate Trading and Profit and Loss Account if prepared for the whole of industry, (on similar lines to the Aggregate Balance Sheet of the banks, already noted), would show the same facts in an accentuated form.

PRICE-BUILDING IN ONE FACTORY. The figures for one article already given, show that of a Price (i.e., a charge against purchasing-power) created of 15/11 only 6/10 was distributed as purchasing-power in respect of it. The following is an analysis of financial values dealt in by a particular manufacturing company in the course of one year, as disclosed by their Trading and Profit and Loss Account.

Payments made to Other	£	1:	£
Organisations:—			
Raw Materials.	15285	0	0
Travelling Expenses.	817	0	0
Rates and Taxes.	289	0	0
Postages and Stationery.	578	0	0
Fuel.	485	0	0
Bank Charges.	402	0	0
Repairs.	236	0	0

Total Outside Payments 17542 0 0

Charges included in Cost, and not Paid Away :—	£	:	£
Depreciation of Machinery, etc.	995		16 0
Reserves.	242		7 0
	<hr/>		
<i>Total Reserve</i>	1238		3 0
 Payments to Individuals :—			
Manufacturing Wages.	18671		0 0
Salaries.	1062		0 0
Director's Fees.	300		0 0
Profit available for Dividend.	4053		17 0
	<hr/>		
<i>Total Purchasing-Power Distributed</i>	19086		17 0
Aggregate Cost, including Profit, Recovered by Sales	=		£37,867 0 0

Assuming that the total profit is distributed as dividend, it is seen that just over 50% of the total cost has been distributed as purchasing-power, and that therefore

By no possible means could the individuals employed in this particular factory buy the total product of the factory, yet an amount has actually been recovered in selling-price of double the amount paid to these individuals as purchasing-power.

How this happens will become immediately apparent; meantime it must be noted that the two concrete examples given,—the first referring to a particular ARTICLE, and the second to a particular FACTORY, are based on the method of accountancy universally accepted, which assumes that Total Cost, plus Profit, must be recovered in Price. Therefore it is obvious that the cost figures of every article produced, and the financial values of every factory operating in the industrial system, must show the same results, with varying percentages of purchasing-power issued.

Moreover, it cannot be contended that the money paid away to other organisations has been distributed as purchasing-power to individuals, and become available for inclusion in the selling-price shown here. The accounting system is double-entry, and under present conditions failure to maintain the system means insolvency. Therefore, if it is assumed that the £17,542 paid to other firms is entered as sales (or income) by those firms, and paid away as purchasing-power, then equally the £37,867 received from other firms must be entered elsewhere as costs, and the deficiency of purchasing-power is merely moved from one point to another.

The money issued to other organisations, if distributed by them as purchasing-power, IS INCLUDED IN ANOTHER COST, and received in another PRICE, in a manner precisely similar to the Account here analysed.

Expanding this method of examination to include all the industrial and commercial activities of the nation, approximately the same set of payments and a similar statement of account would be required. Such a national account, however, would suffer from duplication, because in all cases excepting the receipt of money from the actual consumer ("sales"), the amounts included as "sales" of one firm would be stated as the "purchases" of another, or conversely the "purchases" of one firm appear as the "sales" in another firm's account.

It is thus apparent that the national account would contain items cancelling each other out, and the method may be examined in the building of price by "process-costs," applicable either to operators within one organisation or (as here shown) through a series of firms :—

PRICE-BUILDING BY PROCESS-COSTS

		£	
(1) Extractive (Mine)	Wages and Salaries, say		5000
	Payments for Machinery and Capital. Charges, etc. - - - -		5000
	Total Cost - -		10000
	Profit 10% - -		1000
	Selling Price - -		11000
Total Production sold to Intermediate Manufac- turer, appearing as "Sale" in the present account:—			
(2) Intermediate Manufacturer A. Furnace & Foundry.	—and "Cost of Raw Material" in next ac- count:—		11000
	Other Charges - -		10000
	Wages, Salaries and Dividends - - -		8000
	Selling Price - -		29000
Sold to next Intermediate Manufacturer.			
(3) Intermediate Manufacturer B. Steel Manuf.	Cost of Raw Materials -		29000
	Other Charges - -		18000
	Wages, Salaries and Dividends - - -		16000
	Selling Price - -		63000
(4) Manuf. of Consumable Goods.	Raw Materials - -		63000
	Other Charges - -		25000
	Wages, Salaries and Dividends - - -		80000
	Selling Price -		£118,000

Thus the Selling Price to the Consumer = £118,000
and Purchasing-power issued in all
processes = 60,000

∴ Deficiency of Purchasing-power = £58,000

All the figures are arbitrary, and do not refer to any particular transactions, but similar tables can be compiled for any goods, and the final result shown is a ratio of purchasing-power to price similar to the manufacturing company's account analysed above and is purposely "moderate" from the point of view of this discussion.

As a matter of actual experience, all business men know that, under the stimulus of scientific management and "efficiency methods" industrial operations are continually being standardised, and so soon as that happens, the performance of the work is being transferred to a machine. Thus the actual ratio of purchasing-power issued to the price raised is nearer 1:4 than the 1:2 ratio used for demonstration.

In the National Trading and Profit and Loss Account, therefore, as in the account for the individual factory shown, the essential facts would be; the aggregate amount paid out, and its destination, and the aggregate amount received to cover the expenditure.

Or, looking at the same process of price-building in another way, it could be assumed that the figures shown as the total deposits of the banking system as at the 31st December, 1920, plus the amount of currency in actual circulation, represented the actual "money" available to finance industry FOR A SPECIFIED PERIOD. It could be assumed quite logically, also, that this money operated the whole industrial system regarded as *one firm*. In the very nature of the present method, therefore, we know that only a proportion between one-fourth and one-

half of the money would be distributed to individuals, and that this would be re-collected from them for A PROPORTION ONLY of the total production. The balance of the money would be "paid away to other organisations," and not to individuals.

But since the industrial system is composed of myriads of individual "organisations," or firms, it would be apparent that the financial values not distributed circulate, by means of "the system of perfected barter," from the loan-issue stage through the accounts of depositors on the *producing* side of their activities. Thus the only movement of "money" in this way would be from deposit to deposit, or from loan to deposit, or from deposit to (repay) loan, and the prices thus built would be principally in the capital and intermediate stages of production, and would still remain to be liquidated in the selling price of consumable goods.

NATIONAL PRODUCTION IS PAID FOR BY NATIONAL CONSUMPTION

Thus a summary may be made of the aggregate financial values entering into the national productive system, i.e.—

(1) PRICE-BUILDING BY ACCOUNTING COSTS.

- (A) The Cost representing Work done (or Capital invested) and distributed to individuals as Wages, Salaries, and Dividends
- (B) Inter-unit Payments for Other Costs not distributed, and representing the financial values of Capital and Intermediate production, normally financed in the first instance by a loan (of financial credit) from the Money Market

(C) The Cost of Imports
 Total Price, being the financial value placed upon Aggregate National Production 100%

(2) PURCHASING-POWER ISSUED TO LIQUIDATE PRICES.

(A) Issued to Individuals as Wages, Salaries, and Dividends per section (A) of "Costs"
 Deduct amount re-invested by Individuals in industry and not used to purchase Consumable goods

Balance =

Net Total of Purchasing-Power used by Individuals to purchase Consumable Goods

(B) The Price received for Exports, including "invisible" or "intangible" exports of Capital and services; this item must be greater than Section C of costs *in every individual country in the world*, otherwise purchasing power is further reduced

Total, representing Aggregate Purchasing power used to buy Aggregate National Production as represented by Total Price say, 50%

It must be observed immediately that Aggregate Production (represented by Total Price) includes *all* the activities of the industrial and commercial systems, and also that the Total Purchasing-power used to meet the Total Price is against consumable goods only.

This is because the National Trading Account must be based on Accounting Costs, i.e. :—

THE TOTAL COSTS INCLUDED IN
PRICE,

balanced against

THE TOTAL AMOUNT COLLECTED
FROM INDIVIDUALS,

for consumable goods, and from every point of view possible it has been seen that the RATE OF ISSUE of purchasing-power can never equal the rate of flow of costs in price-building. The Douglas theorem is therefore correct both in general statement and in detail.

The present financial interpretation thus imposes the condition that apart from Bank loans, the price paid by individuals to industry for Consumable Goods (for their own use) shall be the only means of financing the industrial system; it is therefore correct to say that:

PRODUCTION IS PAID FOR BY CONSUMPTION,—and again the actual facts of the present system, already stated, serve to show the impossibility of the position:—

- (1) Purchasing-power is issued only from Industry, for Work, etc.
- (2) Therefore purchasing-power is issued in respect of *future* production, and
- (3) It is expended, excepting three per cent. "savings," on consumable goods for immediate necessities, such goods necessarily being produced at a past date.
- (4) The Dynamic conception is thus demonstrated to be correct, and further, the period from date of production to date of recovery by price is continually lengthening, and
- (5) Finally, the future production for which purchasing-power is issued tends con-

tinually to expand the power of production; and if the potential increased supply cannot be exported, the deficiency of purchasing-power must be remedied by bank-issues of financial credit on an ever-expanding scale.

Since, however, those credits are issued principally to finance capital goods, and are included in further costs and new prices, while only a diminishing percentage of them are issued to individuals as purchasing-power, the whole position is reduced to an impossible absurdity, and the tragic penalties of periodic trade catastrophes like the present (1920—1924) prolonged deflationary cycle, are explained fully.

*ALL Purchasing-Power issued buys part only of
Production*

The impossibility of the position is further emphasized by examining the point noted when analysing the Trading Account of a particular firm; that a firm serving the home market does in fact recover more in price than it issues in Purchasing-power.

The apparent contradiction is explained easily, and may be better understood by dividing Industry roughly into three sections according to the type of work done:—

- (1) All production of Capital and Intermediate goods including Imports for the purpose of finally placing consumable goods before the "home market"—in other words, of satisfying the potential demand of the community of individuals.
- (2) All production of Capital and Intermediate goods for the purpose of creating consumable goods for export; in this case, however, production ceases in many cases (e.g. textile machinery) at the Intermediate stage, and

does not proceed to the ultimate production (e.g. cotton clothing). As effecting the national producing system, however, all goods sold abroad have the effect of bringing in purchasing-power in the same manner, and the "favourable" exchange produces new purchasing-power.

- (3) All production of Capital goods that are neither exported nor made available for the use of individuals, in the sense of personal consumption. (State productions of public works have of course uses beneficial to the community, but they are not, obviously, consumable goods.)

In each section of production, the price of the goods finally "sold" or charged against purchasing-power, will be built up on accounting costs in the manner already analysed.

Each section will include :—

- (1) Costs representing payments to Individuals.
- (2) Costs representing payments not distributed to individuals.

and equally so, the purchasing-power issued for each section cannot possibly equal the price of the aggregate production of that section.

Moreover, the aggregate production of two of the sections does not in fact become available for purchase by the community of individuals referred to as "the Home Market," for whose satisfaction the whole industrial system, in theory, exists.

Therefore the possibility exists of meeting the price of one section of production, by the combined purchasing-power of all three sections, and this in fact is what happens in practice.

The aggregate purchasing-power issued in respect of ALL production, less "savings" and re-investments, is recovered in the price of PART ONLY, that being section one, the consumable goods bought by the individuals of the Home Market.

Consumption therefore pays for production,—and more, it pays for the production of goods that never become available for consumption. The facts may be summarized diagrammatically.

PRODUCTION-COSTS AND PURCHASING-POWER

UNDER THE DOUGLAS "A+B" ANALYSIS

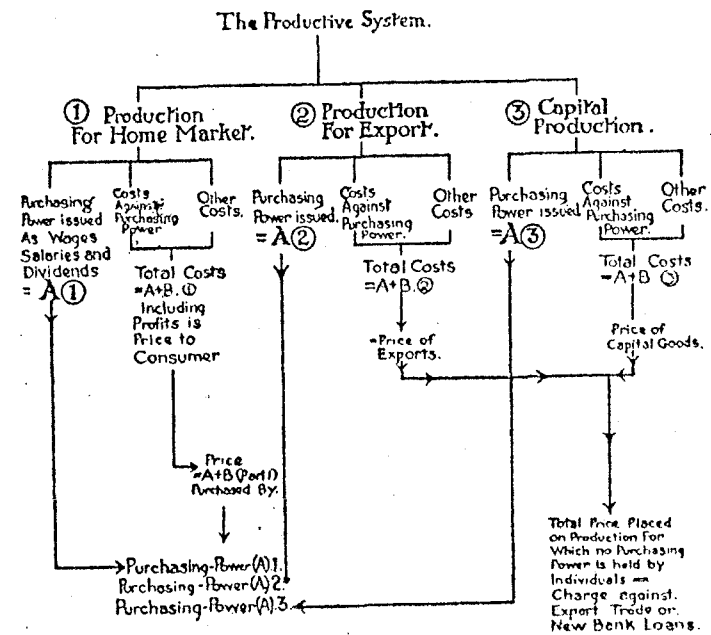


Diagram No. 14.

RESULTS OF THE DEFECTIVE SYSTEM

When the accuracy of the Douglas theorem has been grasped, an appreciation of the effects of the fault identified follows logically.

Combined with the inclusion of all purchasing-power in Price, the present system contains no scientific method of price-fixing. In theory prices are fixed by the law of (available) supply and (effective) demand, but in fact the upper limit alone is so fixed. Goods are sold "for what they will fetch," but they cannot be sold at *less than cost* under the present system without causing financial bankruptcy.

Thus, an increased flow of purchasing-power merely causes an inflation of the PRICE of goods immediately available, and a precisely similar increase of COST of future goods in respect of which the purchasing-power is issued. The vicious circle cannot be avoided.

The effects of the system, therefore, are an imposition of penury upon the majority of individuals within the nation, and an insistence on the necessity for Export markets and capital production to justify new issues of purchasing-power.

If *one* nation could have a monopoly of the export trade of the world, then indeed the favourable exchange might keep the community of individuals in a state of prosperity; but no nation under present circumstances can afford to bear a continuously unfavourable exchange. How in fact could it supply the "money" unless the creditor nation (as suggested in Chapter VII) began to lend it to them?

The inevitable effects, in short, are poverty within nations, and international economic struggle leading towards war. The position is well summarized by N. E. Egerton Swann :—

"That civilization has now come to its deadliest moment of peril since the Dark Ages is hardly a matter of dispute among thinking people. A war-weary world which is yet dragging itself round the same treadmill-grind that led it to war; is already echoing daily with rumours of further immediate wars; an economic machine that creaks and groans on by uneasy fits and starts; unemployment rife throughout the world in recent years in face of the loudly-proclaimed need for wholesale reconstruction, and in our own country presenting us with the certainty of a fifth successive winter of almost unexampled blackness; an industrial machine clogged with its own products, while in every country there is an outcry against the poverty-stricken life of the majority—THAT is what we see around us."

RESUME

Major Douglas summarizes the facts of the situation as described by the theorem stated in the following terms i.e.,—

The roots of the disease, then, are as follows :—

- (1) Wages, Salaries, and dividends will not purchase total production. This difficulty is cumulative.
- (2) The only sources of the purchasing power necessary to make up the difference are loan and export credits.
- (3) All industrial nations are competing for export credits. The end of that is WAR.
- (4) The major distribution of purchasing-power to individuals is through the media of wages and salaries. The preponderating factor in production is improving process and utilization of solar energy.

- (5) This latter tends to displace wages and salaries and the consequent distribution of the product to individuals. The credit factor in purchasing-power thus increases in importance and dominates production.
- (6) This production is consequently of a character demanded by those in control of credit and is capital production.
- (7) The fundamental derivation of credit is from the community of individuals, and because individuals are ceasing to benefit by its use it is breaking down.

CHAPTER XIII

A SUMMARY OF CAUSE AND EFFECT, AND THE REMEDY SUGGESTED

THE PURPOSE (AND THE PERVERSION) OF INDUSTRY

THE economic system is a means to an end,—that end (let it be repeated once again) is the satisfaction of the natural wants and cultural desires of the community of individuals.

The methods adopted by industry to achieve its end are technical; they are the application of scientific powers to natural resources, for the creation of economic utilities,—that is, the conversion of natural wealth from an unusable to a usable form. But the effects of industrial production are not technical; they affect the individual as a sentient being. He does not regard commodities as “economic utilities produced by scientific methods,” but as the means of personal satisfaction,—first, to supply the animal needs of the human engine, and thereafter to create the material and mental environment in consonance with the higher aspirations, (be they called mind, intellect, or soul, or any other name).

A certain English factory employs some 3,000 individuals for the manufacture of low-priced confectionery,—the child’s “penny per ounce” sweetmeats. The Managing Director is an advocate of “efficiency methods”; and the whole aim of the

factory is high production, satisfactory goods, and low costs, and the contentment of his employees AS PRODUCERS is carefully tended. It is quite certain that the vision of some distant village store, of minute and interesting inefficiency, and a little child bartering his coin,—not for the scientific product of the factory, but for a pennyworth of temporary happiness,—does not appear to the efficient organiser.

The idea of the individual as consumer is only considered incidentally—that managing director is aiming ultimately not at the satisfaction of the consumer's wants but at the building of a satisfactory dividend and an adequate financial reserve.

In short, the industrial system is now fulfilling a financial end, under financial dictation, and consequently the possessors of financial credit must control industrial policy and therefore the wealth (the well-being) of the community in general.

THE POWER (AND THE RESTRICTION) OF PRODUCTION

In accordance with the proper purpose of industry, the extent of production should be limited only by the scientific conquest and prudent conservation of natural resources. Under a policy directed to the proper end, the present industrial system possesses a power of production sufficient to raise the human race above the mere subsistence-level, and place it on a plane of economic plenty—and security—where its destiny of intellectual and spiritual magnificence might, perhaps, begin the final growth towards fulfilment.

The examples of such power are manifold. Even such a densely populated country as England, under the stress of war, raised the home-grown supply of wheat from eight weeks per year in 1913 to 43 weeks

per year in 1918, and with proper organisation TO THAT END England could be self-supporting as regards wheat.

At the River Rouge plant of the Ford organisation, it is possible to stand on the "bridge" of the blast furnaces and see on the one hand raw material in three separate streams, of coal, wood, and iron-ore, coming into the plant and at the other end the finished farm-tractors leaving under their own power. The liquid metal is run directly from the furnaces to the moulds, (this in itself being a revolution of method), and the raw materials are actually transformed into labour-saving machines in the apparently miraculous time of three days.

With these labour-saving tractors, the staff now required to labour a farm of 5,000 acres, in cultivation, could do the same work in 25 days, leaving 340 days either as leisure or for other production.

The Stanton de Lavoud process has introduced labour-saving machinery into the manufacture of cast-iron pipes, where previously it was considered that skilled labour was essential. With this process, a plant employing 30 men can produce 250 pipes per 8-hour day. Thirty men using the old method (of sand moulds) could not produce more than 20 per day.

The same process is apparent everywhere and the power of mass production is common knowledge. The industrial output during the war (when the "producers" were replaced by the aged and the women), astounded even the industrialists themselves. There was an engine of production at work in Great Britain at the end of the war which, if adopted to the usages of Peace by alterations very often only necessary in the later processes of production could have flooded the country with a plentitude of goods beyond compute, and, by the development of conser-

vation devices, with an increasingly less demand upon the "capital" provided by Nature.

The work could have been done by machines. "There was a potential power actually in use," states Professor Soddy (in "Cartesian Economics"), "that could have pulled down and rebuilt every town and city in England, during these same five years that we have been lamenting our poverty and the scarcity of houses." But such desirable activity could take place only if the point of view were adopted, that the industrial engine existed actually to produce the things needed by the community.

The scientist states that the work should be done by machines. The financial economist states that men must work else they shall not be permitted to eat; the industrial engine, he says, in the fundamental conception provides WORK, not goods.

Therefore since financial policy controls industry, production is permitted only to the extent and in the direction dictated by an anti-social and self-destructive system, resulting in the continual tendency to force individual "earnings" down to the subsistence level.

CAPITAL AND LABOUR

The only real power to-day is money-power; the most potent authority is now chiefly exercised through finance.

Under present financial policy, industry serves a financial end; purchasing-power is distributed to ninety-five per cent. of the community, as producers, by the remaining five per cent. representing the controlling executive of the industrial organisation.

Therefore, to the great majority of the individuals "earning" the right to live by working for money-tokens, the immediate expression of authority is

observed to be the employer,—the controller of Capital.

To the wage-earners, therefore, the person to whom application must be made for economic assistance is the capitalist, and if both employer and employed are under the impression that the SYSTEM is sound, the only means of increasing the general level of wages is by reducing profits, or increasing output per head with the assistance of machines. But since the increased output could not find a market and machines must ultimately displace labour, the quarrel between Labour and Capital centres in the division between them of the aggregate income or profit that can be earned by industry, under the present system.

Thus the cleavage of discontent and struggle in the community is between producer and producer, Labour and Capital, and again the "consumer" is ignored. But it has been demonstrated that the real cleavage is between the producer and the consumer,—the defect lies in the financial, and not in the industrial, system.

The reasoning imposed by finance therefore tends to conceal the real facts of the situation, and to inspire distrust between different classes functioning within the industrial system. The aim of industry must be to produce something, whether useful or desirable, or not, that can be converted into "money," and such production (though actually it may be a waste of productive power) must be called "wealth." Similarly, the individual must endure a continual struggle for possession of purchasing-power, under conditions in "standardised" monotony becoming more and more insupportable, and as between the individual and industry in general, the one must strive for the greatest command of money and the other must strive to recover it from him by the most expeditious method. One must gain by another's loss.

The habits of thought engendered develop an appreciation of entirely false values, and certainly "business morality" has no relation to the ideals of either religion or philosophy.

"It is one of the most curious phenomena of the existing economic system, that a large portion of the world's energy, both intellectual and physical, is directed to the artificial stimulation of the desire for luxuries, by advertisement and otherwise, in order that the remainder may be absorbed in what is frequently toilsome, disagreeable and brutalizing work; to the end that 'employment' as a device for the distribution of purchasing-power may be maintained in existence. The irony of the situation is the greater since the perfecting of the organisation to carry on this vicious circle, carries with it a complete negation of all real progress.

"The common factor of the whole situation lies in the simple facts that at any given period the material requirements of the individual are quite definitely limited—that any attempt to expand them artificially is an interference with the plain trend of evolution, which is to subordinate material to mental and psychological necessity; and that the impulse behind unbridled industrialism is not progressive but reactionary, because its objective is an obsolete financial control which forms one of the most effective instruments of the will-to-power, whereas the correct objectives of industry are two-fold: the removal of material limitations, and the satisfaction of the creative impulse." (C. H. Douglas: "Economic Democracy.")

THE STRUGGLE FOR FOREIGN MARKETS

The morality imposed on industry and the concurrent necessity to export goods AT ALL COSTS, is typified by the remarkable record published by

Rear-Admiral Consett, "The Triumph of Unarmed Forces." This is a straightforward statement of the facts observed by him as British Naval Attaché to the Netherlands. He proves by official figures that huge quantities of British goods were sent to neutral countries, in spite of his protests, and were either re-consigned to Germany or released other goods for re-consignment. In the case of coal, the neutrals used British coal and sent their own to Germany, thereby releasing about a quarter-of-a-million miners for active service with the German Army. Millions of pounds' worth of goods in excess of pre-war figures were exported from England to neutral countries, and the consignors must have been wilfully blind, if they did not realize that their goods helped an enemy to continue the slaughter of their own kin. The Government, also, by postponing the policy of blockade for thirty months after it was advocated by this author, displayed a tragic ignorance of the consequences of their action.

Similarly nowadays there exists an apparently wilful blindness to the inevitable consequences of the present financial-economic policy.

All industrial countries are working the same financial system, and therefore they are mutually unable to sell their total production at home. Foreign markets are vitally necessary to them, because obviously no country can support a permanently adverse exchange. Also, (apart from such creations as treasury notes), a favourable exchange is the only means of attracting the gold basis on which credit-currency is at present issued.

But the exports of all countries are not merely surplus "consumable goods." Staple British exports, for instance, are MACHINES for the production of those very commodities (such as cotton or steelware) which are also staple British exports.

All industrial countries, therefore, are continually expanding their power of export, and the equivalent necessity for exercising that power, while at the same time all foreign markets are continually being restricted by the expansion of their own productive powers, (apart of course from purely regional production).

Since the financial penalties imposed on one community, whereby one may gain only by another's loss, operate also internationally, the end of such impossible conditions must indeed be war. No nation can AFFORD to be peaceful, when that policy would mean national bankruptcy.

FUNDAMENTALS OF THE ECONOMIC STATE

It has been suggested during the progress of this discussion that the remedy would be suggested by a correct diagnosis of the disease, and this in fact is so. As originally stated, the remedy will be indicated, but not elaborated; in submitting proposals so radical, the first step must naturally be a clear and definite recognition of the situation and the causes of the faults in the economic structure. But the detailed description of the proposals and their practical application are available in those works to which the present discussion is intended to be an introduction.*

It is necessary to summarize certain fundamental conceptions concerning the structure of society,—facts which are in themselves, perhaps, quite obvious, but which have been ignored by the policy now controlling the economic life of the community.

(1) SOCIETY IS COMPOSED OF INDIVIDUALS, and the impact of all laws and every policy must ultimately be on individuals. Also, the

* "Economic Democracy" by C. H. Douglas. London: Cecil Palmer. "Credit Power and Democracy" by C. H. Douglas. London: Cecil Palmer. "The Community's Credit" by C. Marshall Hattersley, M.A., LL.B. London: Credit Power Press.

needs of individuals for the elemental necessities of life must be the foundation of the economic system, while every organisation aiming at the greater command of natural resources must depend upon the association of individuals into co-operative groups reacting upon each other. The individual standing alone, without the infinite increment of this association, would have no more power to satisfy his needs than the man of the stone age. Therefore the foundation of the economic system is consumer's demand, and its satisfaction by the association of individuals for the control of natural resources. The foundation is the community itself,—therefore

(2) PRODUCTIVE INDUSTRY IS A COMMUNAL ASSET, the only justification of which is the satisfaction of INDIVIDUAL needs and desires by the ASSOCIATION of individuals in producing organisations, for the exploitation of natural wealth to the fullest capacity possible by scientific application; thus

(3) MANUAL LABOUR SHOULD BE DISPLACED BY MACHINERY to the limit of invention, so releasing men for the service of the creative instinct,—(naturally directed to the improvement of the industrial engine, and the further curtailment of the socially-necessary human labour). In these, the proper, conditions of the economic state,—

(4) MONEY IS MERELY THE MECHANISM OF DISTRIBUTION, and its uses are confined to the convenient expression of the claims of individuals upon the stream of economic utilities produced by the industrial system.

(5) COMMON CULTURAL INHERITANCE IS AN AGENT OF PRODUCTION. The association of individuals in the community has built up an inheritance that is passed from generation to generation with a cumulative value. "Our heritage is the

command of Nature by science and the elimination of human labour by machinery. It comprises ordered government, industrial, social, and political organisation, education, religion, and the hundred and one amenities of civilization. Capital without labour is impotent. Labour without Capital is practically powerless. Machinery, mind and muscle, apart from the Common Cultural Inheritance, would be disorganised and ineffective." (C. M. Hattersley). If this is recognised, then it must be admitted that:—

(6) LIFE (i.e., citizenship), AND NOT MERELY WORK, CONSTITUTES THE INDIVIDUAL'S CLAIM ON NATURAL WEALTH. The individual born into and living in a society built up by many generations, wherein his own ancestors contributed their quota of labour by hand or brain, cannot be denied the right of sustenance and of self-expression to the full capacity of the economic power of production.

These propositions are recognised as a more detailed statement of the "Analysis of Credit" in chapter ten, and they may be summarized into the conception stated therein, that the Real Credit of the community is the Potential Demand of the individual consumer, operating upon the Potential Supply of economic utilities provided by scientific industry.

It must be recognised finally that the whole trend of scientific control of natural wealth, and its conversion into economic *values*, makes the problem of the future NOT THE FINANCING OF MANUAL WORK, BUT THE PROVISION FOR INDIVIDUAL LEISURE.

Carrying these fundamental conceptions into a more practical interpretation, the following points must be emphasized:—

(1) The real income of individuals is the actual CONSUMPTION of economic utilities, and their income should be measured by the quantity of such utilities available for their use.

(2) Therefore the individuals of the community should always possess sufficient money-tokens to pay for all the CONSUMABLE goods made available for their use by industry, and new goods should be balanced by an equivalent issue of new money.

(3) Obviously the money issued will benefit individuals only if issued direct to them, and not issued as a cost of production. The point of contact is price, and price-regulation becomes an apparent necessity, and individuals should be required to pay only for those commodities actually consumed.

(4) Finally, Production that is not consumed by individuals, and remains as an asset in the community, and particularly in a form increasing the power of production, must be regarded as an addition to the communal wealth or Real Credit, and should not be charged to individuals in the price of Consumable goods.

THE DEFECTS SUMMARIZED

The disease that afflicts the social organism has been discussed from various aspects during the preceding chapters, and the faults can now be summarized by reference to the fundamentals set out above, following the same numbers:

- (1) The individual as consumer is ignored.
- (2) Productive Industry functions to a financial end, as the distributor of purchasing-power and its immediate recovery by prices.
- (3) Manual labour, or service by hand or brain, is the only recognised claim on purchasing-power; therefore financial policy is antagonistic to scientific

invention, since machine-labour means destitution for the human labour displaced.

(4) Money has become the instrument of Financial Policy as laid down by the Money Trust, and is used primarily as a Producing agent to express Costs and Prices, and not as purchasing-power.

(5) The Common Cultural Inheritance is denied recognition as an agent of production, and consequently Labour and Capital (who are also consumers in common) are living in continual antagonism.

(6) The claim of the individual to sustenance by citizenship, is recognised to-day on the destitution-level by Old Age Pensions, and by unemployment relief. The latter, however, is in effect a mere insurance against a revolt promoted by the apparently inevitable evils of the present system. But so far as a reasonable standard of living is concerned, no claim on the stream of production is recognised excepting the wages system of reward for labour. Considerable numbers of individuals, however, do receive their whole income as dividends from investments,—the dividends of course being provided by the labour of others.

Regarding the four points of practical interpretation, the faults were stated in detail in Chapter XII:—

The Consumer pays for all goods produced:—

CONSUMPTION PAYS FOR ALL PRODUCTION,

and all new money issued is included in the cost of production on which price is based, the consumer being ignored. Under present conditions, the Producer cannot sell at less than the Accounting Cost.

THE REMEDY : (A) THE JUST PRICE

The remedy suggested by Major Douglas arises quite naturally from a recognition of the faults in the financial mechanism, as detailed in Chapter XII, and summarized above:—

- (1) Total National Production represents the result of the national industrial activities, and is valued at a Price based on Costs, say, 100.
- (2) Total National Consumption represents the Real Income of the Individuals of the community,—that is, the goods and services received to satisfy natural wants. Such consumption is measured by the purchasing-power received for work and paid away for consumable goods, and the amount available as purchasing-power could buy only a portion of total production, say, 50.
- (3) The Balance (since Total Production includes imports, and Total Consumption contains exports) represents an increase in the communal wealth, and by the present system it is paid for by financial credits, issued by the Money Market.

But it is sought to charge the full price (100) in the price of consumable goods, and the results have been seen to be disastrous. The Douglas proposal is, therefore, that

- (1) The Price of Goods to the Consumer should represent only the Real Benefit received by him as an individual, and should include nothing to cover the increased real credit accruing to the community in general.
- (2) The Balance now controlled by financial credit issued from the money market should

be covered by drawing on the financial credit of the community as a whole,—that is, from the Treasury.

The interpretation of this applied to the arbitrary figures given above would be:—

Total National Production = Present Price = 100
 Total National Consumption = Real Benefit = 50
 The Ratio of Real Benefit to Price = $\frac{50}{100}$ or $\frac{1}{2}$

That is to say, the Price of the Total National Consumption, if regarded as Real Benefit, should be one-half of the price of Total National Production, and this ratio is called the Price-Factor:—

“In a community where the Financial System is based on Real Credit, the Just Price of an article to a Consumer bears to the cost of its production the same ratio as does the Gross Depreciation of Communal Real Credit bear to the Gross Appreciation thereof” (C. M. Hattersley)

and the formula could be stated:—

$$\frac{\text{Just Price}}{\text{Cost Price}} = \frac{\text{Total National Consumption of Real Credit (50)}}{\text{Total National Production of Real Credit (100)}} = \text{Price-Factor} = \frac{1}{2}$$

Therefore the price of an article now priced at £1 (including all cost and profit) to the consumer would be multiplied by the price-factor $\frac{1}{2}$ and sold to him for 10/-, the balance being covered by a Treasury issue.

THE REMEDY: (B) NATIONAL DIVIDENDS

The second part of the Douglas proposal is a frank recognition of the Common Cultural Inheritance entitling every individual to an equitable share of the production of natural wealth made possible by communal association.

This right is in fact already recognised, as previously noted, by pensions and “doles,” and so far from being “demoralising” as giving “something for nothing,” it is founded on a proper conception of the foundations of society, and is both eminently desirable and ethically justifiable.

The desirability of some system of National Dividends becomes self-evident, when it is remembered that even to-day a full use of scientific inventions could reduce man-labour by probably 75%, and therefore deprive that portion of the community of the only presently recognised claim on the necessities of life. Real Credit is a communal asset,—it does not belong to any particular section of the community, but every individual member, as such, is justly entitled to share in the natural wealth produced by Industry. Deny this, and Society is at once placed on a stone-age basis where the fittest only will gain his rewards by the right of might.

It will immediately be asked: where is the “money” to come from to finance national dividends? Tragic memories revive the statements made by “experts” in 1914, that the War could not last very long, because the money did not exist to carry it on! Yet the money was “found,” and we have identified its source.

The Douglas proposal is made on the assumption that

- (1) The economic system will be based on Real Credit and not on Financial Credit.
- (2) Prices will be scientifically regulated by the "Just Price" formula.
- (3) The Treasury issues will not be inflationary, but will be issued only against increased production (Real Credit).

Therefore the proposition suggests that the question should be, not "Where is the money?" but "Can the goods be produced and delivered," and if they can, on the fundamental conception of the purpose of industry, financial credit (purchasing-power) should be issued to balance the new production:—

EFFECTIVE DEMAND SHOULD BE MOBILIZED by the Real Credit of the Community and not by the purely fictitious power now exercised by the Money Trust operating by its Financial Credit.

National Dividends would be based on the Real Credit of the community, and could be introduced gradually by the practical application of price-regulation. They would be available from credit-creation for capital development, when such credit was operated for the benefit of, and controlled by, the consumer. The evidence of the past assists in understanding the point.

It has been demonstrated that every £1 beyond the value of actual legal tender, within the whole financial system, including the "frozen currency" represented by investments, must have been created by financial credit created by the Money Trust. Under the Douglas proposal, not only would Capital expansion have been much more rapid, but an increasing proportion of the "money" would have come from the proper source,—the Government acting for the con-

sumer. Therefore the dividends earned by industry would have become in an increasing degree the income of the community in general, and the problem of "financing leisure" would have been solved; the term "unemployment" naturally would have lost its meaning. A short note on the practical application of the proposals will make the point clear.

PRACTICAL APPLICATION

At this point it must be emphasized that a statement of the practical application of the Douglas proposals cannot precede an acceptance of the principles on which they are based, and a recognition of the defects they propose to remedy. At that stage, just as the remedy has been seen to follow logically on a recognition of the disease, the practical application will be found to be a matter of accountancy organisation, involving change of control of policy rather than obvious changes of method.

The points to be aimed at are:—

Price Regulation.
Credit-control on behalf of the Consumer.
National Dividends.

And at the same time certain effects must be avoided:—

There must be no Government interference with the administration of industry.
No expropriation.
Protection of present rights.

(1) The collection of information regarding National Production and Consumption is a matter of organisation; most of it is done already. It is merely the summary of the cost (or Price-building) and the

sales of the producers, middlemen, and retailers of the country, for all goods,—capital, intermediate, and consumable. To instance one possible method,—if the regulation of the Companies Act regarding book-keeping and audit were extended to every business in the community and made compulsory, then by appropriate forms issued against “licences to trade” (similar to a Company’s Certificate of Incorporation), the necessary particulars could be collected periodically in an entirely confidential form, either direct or as a duty upon the auditor whom every business, under such regulations, would be required to appoint.

The Price-factor could thus be published at the end of stated periods, and be operated during the succeeding period, the difference between “total cost” (including profit) and “price received” from the consumer under the price-factor, being issued for preference to the Retailer as a Treasury Draft. This would be used by the Retailer to discharge his indebtedness to the Wholesaler, and the only actually “new” money issued would be the profits earned at the various stages. Profits would be standardized at an agreed percentage on the cost.

Inflation would thus be avoided automatically, and the new money issued would be a financial credit balancing an increased power of production. The actual operation of such credit-issue could be operated by Regional Clearing Houses,—working on lines of organisation very similar to the present Bankers’ Clearing House, organised by “Producers’ Banks.”

(2) Consumer Control of Credit and the National Dividend could be operated by the creation of Producers’ Banks for each industry. The existing banking system, of course, would be the most easily adapted and most efficiently organised, provided the control of policy was relinquished. The Directors or

proprietors of all businesses would make all payments of wages and salaries direct to the Producers’ Bank in full. The Bank, as such, would pay no dividend, but from the date of its establishment—

All subsequent expenditure on Capital account would be financed jointly by the owners of the businesses and the Producers’ Bank, in the ratio which the total dividends bear to the total wages and salaries.

Thus (as in the case of currency-creation by the banks) when new money was necessary, for each £100 subscribed £10 would be “invested” by the industrialists, and £90 would be a financial credit created by the Producers’ Bank. All such creations would be rewarded by “interest” which would become available for distribution as “National Dividends” to all depositors (that is wage and salary earners) in the particular industry.

Existing Capital would be guaranteed an adequate rate of dividend.

The effect of such a policy is thus summarized by W. Allen Young (“Dividends for All”) :—

“By means of the Producers’ Bank, the wage will gradually give place to the dividend as a basis for the issue of money to the Consumer. Those engaged in Production will draw, as before, a remuneration either in the form of wage, or salary, for their work. But as time goes on they will become less dependent on such remuneration for existence. This will result in three important changes in the development of industrial life :

(1) There will no longer exist a deterrent to Invention. At present, wage earners are hostile to the introduction of labour-saving devices, since these tend to take employment from them, when practically the

only purchasing-power issued to them is in respect of such employment.

(2) A temporary restriction in Production by one group of industries will not have such an immediate effect upon Consumption, as it does at present, and will not immediately cause other industries also to restrict their production.

(3) Gradually the necessity for unemployment doles will be diminished, until eventually it will be removed.

SUMMARY

The weight and value of the suggestions are obvious, and, though opponents of the proposals have made various "practical" objections, they have all been answered, and a further study of the subject will convince the impartial student that the Douglas proposals are in fact the only practical solution of the present industrial and international deadlock.

The practical implications of the new economic theory are well summarized in "The New Age" of October 16th, 1924, in the treatise, "Through Consumption to Prosperity":—

"There is nothing to prevent its immediate inauguration by the Government and the banks.

"It begins by doing what all other policies merely promise to do—abolish want.

"It can support in comfort every person whose services are not required by the industrial system; and therefore eliminates the Unemployment problem.

"It encourages the use of every labour-saving device that Science can offer, and adequately rewards the inventor.

"It solves the problem of harmonizing the interests of the capitalist and the worker within the industrial system.

"It abolishes the conflict between the parties to production on one hand, and the community (as the 'consuming' party) on the other.

"It affords a means of enabling the citizens of this country to pay all necessary taxation.

"It does not conflict with any political principle. It underlies all politics and unifies them.

"It frees politics from all sordid elements, and attracts back to Parliament the 'best men.'

"It wipes out crime in broad sweeps.

"It leads to a short working day for everyone.

"It expands the home market and enables industry to recover all its costs and keep solvent without being obliged to press its surplus products on foreigners, as now.

"Therefore it is the most powerful of all factors in maintaining Peace.

"It establishes willing co-operation in the place of sullen compulsion as a basis of society.

"It sets free funds for the development of every cultural and spiritual objective, and provides leisure for their pursuit."

THE DEBT UNPAID

At that time came the tramping of eager feet on every roadway and in every homestead, and, with the weight of an impossible horror removed, the community of individuals turned to the pleasant ways of Peace.

For many years the industrial engine had answered every call, and even in the absence of the men, the normal "producers," the obedient Genii of the mine and forge and factory had poured forth miraculous quantities of wonderful products. Therefore it was thought that with the new strength born of trial, and with the relief of five million new labourers, eager to build a home to obliterate the memories of war, the power of producing the real wealth of comfort and of culture would be not only as great as, but infinitely greater than, the acknowledged and fearfully-demonstrated power of producing the instruments and materials of destruction. These things of death, even so, had been provided in addition to a comfortable standard of life for millions of soldiers, and a not-too-low provision for the great population at home.

For a time, the stream of production was in fact maintained, and a short period of prosperity—from the point of view of REAL WEALTH—was experienced by the hopeful and thankful peoples. But, even as the effects of the "inflation" circle was becoming evident, something "mysterious" happened,—which, perhaps, we have now recognised clearly,—and the country was plunged into a disaster of bankruptcies, unemployment, destitution, strikes, and unfathomed miseries for those clinging desperately to the lowest fringes of the "economic" organisation.

CHAPTER XIV

ALTERNATIVES :—PREJUDICE AND POISON-
GAS OR THE NEW AGE

A CEREMONY OF REMEMBRANCE. 11/11/1924

ON this day a ceremony of remembrance has been honoured before the shrine of a million sorrows. The bowed multitudes have kept a rendezvous with absent friends, and when at a point of Time the clangour of the world's work ceased, for two minutes perhaps the eternal Silences came down and enveloped the listening throngs, it may be, with unspoken messages from the silent-footed battalions of the dead.

And then to all whose memories are not bounded by a brief span of fleeting years, the spirit of surcease and rest was revived as it was experienced by many weary men in 1918, when ended "the War to end War." Then came a vision of the flood of haggard veterans and careless boys who, relinquishing the far fields to those quiet ones who will yet remain there, came home to a life they had almost forgotten how to live, looking for *the land of promise*, and finding in its stead the unavailing "promises" of sincere but helpless rulers.

Therefore on this day of remembrance eight hundred thousand veterans, honouring the memory of their comrades, face the fifth winter of an ordeal of unemployment that has tried them more sorely in mind, in body, and in spirit than even the same period of war. To the sorrowful dishonour of the nation be it said, that many of these men, who had already earned their "right" to live by the offer and risk of life itself, have looked in their time of trial on the pinched faces of their dependents, and wished that they too had been called "Absent" at the last muster of the great struggle.

Is this the price of progress? Must War be honoured with the genius of production, and Peace denied the right to live, except in a state of destitution?

PREJUDICE—

Yet to-day the unthinking mass of those to whom "poverty" and "revolution" are only meaningless terms, are as blind and prejudiced as those wise men of 1914 who prophesied, good people, that no "world-war" could last very long because there was no "money" in the world to pay for it.

They were mistaken; it was a very tragic mistake. It took ten million human lives to prove them wrong. But they *were* wrong, these advocates who would uphold "the old tradition" in economics, and who now with sublime audacity instruct us that "to criticise the banking system is very like a commercial form of what is called "sedition" in the political sphere." (A. W. Kiddy, "Spectator" 20/10/24). The money *was* found; some £100,000 million of it, by the nations of the world; £38,000 millions have been added to the National Debts alone.

Can the system that is thus able to produce fabulous amounts for destruction of every human ideal, and that must restrict nations in times of Peace to the whipping-posts of penury, consider itself immune from criticism?

The Financial System is indicted as the unsuspected cause of Poverty and War, and on it must lie the responsibility for the needless misery of this time, for the rumblings of discontent and revolution in every industrial country, and for the greater storm that is even now gathering to the point of inevitable catastrophe.

Yet Prejudice in his blindness, being disproven in his contention of 1914, to-day suggests other things that will make "the next war" impossible. The unsuspecting peoples are lulled into a false security by the constantly-repeated formula:

The world is "poor" because of the last war. It is too poor to afford another one. What is needed most is *toil*,—hard toil by every worker, and economy of consumption, so that "costs may be reduced."

Produce MORE and consume LESS! What a bitterly cynical lesson to teach a nation with $1\frac{1}{4}$ million unemployed, and double the number on "short time"—representing fully 15,000,000 of the population for whom no adequate work exists.

This ironical sermon has been preached within the past week by Mr. G. K. Chesterton, and by the leader-writer of a prominent daily newspaper, both men of great intellectual standing.

But they are obviously preaching from a basis of ignorance; to tell two and a half million people looking for work to "produce more" and "work hard" (i.e., so that output per head be increased and Costs reduced) is a mockery of the facts. Do these gentlemen really understand the implication of financial economics; if so, why do they deliberately ignore the facts which are evident on examination of the Douglas analysis?

—AND POISON-GAS

The most up-to-date argument adduced to prove the impossibility of the next war, is the new power of the potential chemical or electrical warfare and the use of aerial fleets in connection therewith.

The public is familiar with the published accounts of the death ray, of new explosives, of space-devouring guns, of burning and scalding and corrosive and generally diabolical poison-gases, and of possible destruction by wireless waves,—and finally, of the power of launching these evidences of frightfulness against not armies alone, but the unarmed and defenceless civilian population of combatant countries. It is suggested that the power of destructions is so great, that another world-war simply could not happen, because if it did it might quite possibly mean the destruction of the (white) civilization in which we move.

But the world has in fact a number of "little" wars in progress, and has experienced several first-class international quarrels. The League of Nations is flouted, and has no apparent weight in the councils of the nations. In spite of an alleged disarmament, the bayonets in Europe at least equal those of 1914, and the very nation that instigated the disarmament conferences is quite obviously suffering from an attack

of martial fervour, concurrently with a new-found need of opening and maintaining foreign markets.

Further, the industrial countries of the world, in spite of internal stagnation, are in possession of an engine of production in each case infinitely greater than that operating in 1914; competition for foreign trade is much fiercer; tariff barriers are growing, and the markets once insatiable are becoming self-supporting.

With these tendencies, the growth of "class-consciousness" within nations is rapid, and where formerly "revolution" was a meaningless political term various doctrines based on force and mob-law are openly preached and accepted by millions of sincere men who have looked in vain for other guidance.

A devastating responsibility lies on those who would deliberately prevent the community of individuals realizing the true course of events,—and the true guiding spirit of that course. By no reasoning can it be proven that another war will not follow the next serious economic quarrel; or that the next temporary inflationary "boom" will not be succeeded by a further and more disastrous "slump" leading a long step nearer to disorder, or ordered revolution.

War is not a matter of degree. If one war cost ten million lives, the next war cannot be termed an impossibility because it would cost twenty, thirty, or forty millions. The complex of a kind of hypnotised prejudice that reasons thus is the same that assumes that a whole combatant nation can engage in war, knowing itself to be unjustified. Whatever our opinions of the German people, we know that they suffered death by millions, and infinite hardships even to the remotest villages,—and it is not logical nor even intelligent to suggest that the morale necessary for

such results would have been evidenced, if at least the majority of the people were not convinced of the justness of their cause,—and of the complementary and comprehensive iniquity of our good selves.

Examine the present attitude of the world-powers. Russia is avowedly an advocate of world-revolution. The Eastern and Central European states are as inflammable as ever before. Turkey defies Great Britain regarding territory (containing oil). Spain maintains a guerilla war of her own. The German revolutionary spirit is balanced by an Imperialist war-movement, that must grow in such a people proportionately to the repression imposed on them. The relations of America and Japan were frankly strained to breaking-point on the immigration question. France maintains a preponderance of military strength in Europe unequalled since the time of Napoleon. Italy has changed her political destinies by force, and has administered on one point at least a severe rebuff to the League of Nations and the other Great Powers.

If in such conditions the economic causes of war are still permitted to operate, the hope of peace is indeed forlorn.

THE "PROLETARIAT" AND REVOLUTION

It must be observed that if the social evils prevalent to-day are caused by a flaw in the "system" as apart from the attitudes of one class or function of society to another, the individual can only react against them; he cannot effect an alteration.

But with the spread of education and the material evidences of advancing productive-power, the individual will not be content with passive protest.

The organisation of labour into groups has been caused by its position as an economic "commodity," making bargaining-power a necessity. Under the present defective system, the strike-weapon is justifiable; to demand from the worker a sense of communal responsibility by no means evidenced by other classes (in business life) is not logical. Goods to-day are sold for what they will fetch, and so long as the present system lasts, Labour is merely a "commodity" sold for wages.

But since the fundamental errors of the system make it impossible for any form of bargaining-power or political organisation, as such, to raise the standard of living very much above the subsistence-level, the growth of a more aggressive spirit is understandable. Tragically, the aggression has taken the form of the preaching of class hatred; misunderstanding causes, the leaders of the class-conscious proletariat have read effects for cause, and blamed the instruments of the system for the defects of the system itself.

Therefore the preaching of revolution goes on, and must sooner or later bear fruit. Italy, Russia, and Germany have experienced its effects, and even where armed rebellion has not occurred, discontent has found expression in many ways.

Further, the spirit of direct antagonism which the "master-class" oppose to a movement founded on ideals, is not worthy of a ruling caste, however powerful. If millions of workers have a sincere grievance against social conditions, their opinions are entitled to respect and consideration. The Douglas Analysis has shown the grievance to be justified, and has identified the cause.

The alternation of inflation, with strikes for higher wages, and perhaps a brief taste of increased "real" reward, with deflation, and more strikes to resist

reductions in wages, breeds a fierce sense of injustice in the workers that is obviously demoralizing,—yet even the deliberate restriction of output (e.g., of the building unions) can be justified from any orthodox textbook on “economics” as a legitimate expression of monopoly—value of a particular commodity (e.g., the skilled labour of building).

Internal poverty must be, under industrial conditions, a disease within the social organism. It is needless and avoidable; at once it explains and justifies every expression of the organisation, aggression, or actual revolution of the “proletariat.”

Such a fight, reduced to its elements, we have seen to be a struggle between a monopoly of labour demanding the right of self-expression, and the monopoly of money enforcing a needless system of penury and wage-slavery. The Capitalist, so called, is an intermediary only who does not appear to understand his actual position.

THE OPPOSITION COMPLEXES

The present position appears to be that even those who recognise the necessity for an economic equilibrium of some kind, are not prepared to accept a solution that cuts across certain beliefs which, consciously or unconsciously, seem to dominate them. The chief of these are:—

- (1) That Poverty is an essential part of the social system.
- (2) That Unemployment is a normal and essential accompaniment of industrial activity. (This was recently stated in the “Times” leader; it is presumably “the pool of unemployment” of the text-books).

- (3) That Trade Cycles are inevitable.
- (4) That the Purpose of Industry is to provide Employment (the wage system).

(1) It is to be feared that many of the wealthy and cultured members of society do not realize the existence of poverty at all. The meaning of actual want is not understood; the misery of a continual bondage under “the iron law of wages,” when industrialised cities have removed the natural amenities of ruder communities, does not come within their experience. Others seem to seek religious sanction for poverty as a function of society; the poor being necessary for some ultimate purpose. That belief is not religion; it is blasphemy; it is only tenable if the wonders of scientific knowledge are considered to be the rewards of the few specially favoured of God, which would be repudiated by every person if considered in such a way.

(2) Unemployment is used by the holders of such a belief as affecting the worker who is denied the right of earning wages. But scientifically unemployment in industry should grow continually and become the rule rather than the exception. Some millions now live on dividends alone; “Dividends for ALL” is a natural order of evolution.

(3) So strong is the belief in the alleged inevitability of trade-cycles, that diligent search will show the following to be two theories very widely accepted as proper explanations:—

That trade cycles are caused by the variations of
Sunsports

or

That trade-cycles are caused by the alternations
of business-men from optimism to pessimism, and the reverse.

Placed beside the scientific and obviously common-sense analysis of Major Douglas, these theories become very unsatisfying; an economic equilibrium is compared to absolute mis-regulation.

(4) The purpose of industry has been fully discussed in a previous chapter, but undoubtedly until this and the preceding "oppositions" are overcome by those capable of appreciating the Douglas analysis, and putting it into operation, present conditions will get worse with increasing rapidity.

The danger is world-wide; each industrial country is afflicted with the same problems, and internationally their attitude of distrust and suspicion resembles the bravado of untutored hooligans. Either by another world-war, or by an ever-widening class-hatred culminating in open revolt, the danger must be considered as one affecting the very civilization which has created the problems.

The point of hope, however, is to be found in the fact that the defects of the system are being gradually revealed, and are already recognised by the controllers of finance, and by those who can mould and guide "public" opinion into the beliefs founded on their own policy. Therefore, since the Douglas Credit Proposals are capable of immediate application, and would at once remove the internal causes of discontent and disorder, there is nothing to prevent the hope that the remedy will be adopted and applied by those best able to administer it,—the present financial operators. It could be done, because it means increased Real Wealth for many, with no reduction of the present wealth or position of any.

But if the will-to-power should prevail, then the ever-expanding industrialism that is capable of building the edifice of the new age must disintegrate by its own momentum, and lie as a shattered ruin in the path of an infinite advance.

THE ASTRONOMIC UNIT

The genius of the human race has harnessed the lightning and subdued the elements. Man rides the storm and propels his body through space. A few years hence and he shall circle the earth with the speed of the whirlwind, and his voice shall speak from continent to continent like the word of a neighbour to his friend. The vision of things unseen shall be brought before him and his eye shall probe the further universes where the greater Earths have found their wisdom, perhaps, from follies as strange as those of internecine strife and social misery.

Almost consciously the questing Mind feels itself swinging on the mathematical dance with death as the Wanderer flies on his way through space, the slave of an invisible power that holds him balanced on the brink of utter oblivion. Yet, in this consciousness, and looking outward into immensities of silence and grandeurs of illimitable power, the mind of man retains the courage and the fearless strength of a sublime hope.

In such perspective, he recognises his planetary home as a thing infinitely small, amongst the infinitely great, and it is not too soon to suggest that such a genius of achievement and such a sublimity of hope should be turned for a space on the ignoble and destructive struggle between man and man, or nation and nation.

If all men should be equipped with an economic security, and a freedom for self-development and expression, and if every nation should be in fact, as it is in theory, a family or tribe functioning economically for the common good, it does not seem too much to hope that in such conditions the Astronomic Unit

would be the unit of human intercourse, and the slaughter of nation by nation would be as unthinkable as the deliberate exploitation of a human entity to his own detriment, for the benefit of his brother.

BIBLIOGRAPHY

The literature relating to the proposals of Major Douglas is already extensive, but it is possible to master both the proposals themselves, their practical application, and their precise relation to current economic thought (and facts), by a judicious study of the volumes set out below, according to the temperament of the reader. Many readers of the present discussion may be inclined to take up the works of Major Douglas himself if they have not already done so, and form their own conclusions.

(1) Original Statement of the Douglas Analysis.

"ECONOMIC DEMOCRACY," by MAJOR C. H. DOUGLAS,
M.I.(Mech.)E. (6/- net).

"CREDIT-POWER AND DEMOCRACY," by the Same.
(7/6 net).

(London: Cecil Palmer, 49, Chandos Street, W.C.2).

A new and fundamentally important analysis of the present economic system, demonstrating the effect of the anti-social policy on which it works, and stating a constructive and scientific alternative.

"Major Douglas's proposals, outlined and explained in these volumes, have for some months occupied an important place among the various plans put forward to counter the economic crisis through which the country is passing. It is indeed possible that before many months have passed we may see them proposed. It would surely be a good thing, therefore, in a country that prides itself on being a democracy, that such ideas as these should be canvassed publicly and some definite opinion formed regarding them."—"THE TIMES."

(2) Re-Statement and Explanation.

"THE CONTROL AND DISTRIBUTION OF PRODUCTION," by MAJOR C. H. DOUGLAS. (7/6 net).

(London: Cecil Palmer, 49, Chandos Street, W.C.2).

This book is a commentary and a re-statement from several points of view of the Author's convictions on the credit and price regulation problems, which are now being discussed all over the world, and notably in the Canadian and South African Parliaments, where it is recognised that the problems with which they deal are at the heart of the general and growing unrest.

"THE DOUGLAS THEORY," by MAJOR C. H. DOUGLAS.
(6d. net).

A reply to criticisms of Mr. J. A. Hobson.

(3) The Philosophy of the Subject.

"SOCIAL CREDIT," by MAJOR C. H. DOUGLAS.
(6/- net).

(London: Cecil Palmer, 49, Chandos Street, W.C.2).

A consideration of many of the injurious and tyrannical practices which obtain support in Great Britain and America under the cloak of such words as Justice and Democracy, and the object lesson provided by Russia, and possibly by Italy and Spain as the consequences of their extension, may serve to emphasise the necessity for clear thinking.

In these pages the Author endeavours to indicate the general lines which, it would appear, are essential in dealing not only with the concrete problems, but the perverted psychology.

(4) Explanation and Practical Application of the Douglas Analysis.

"THE COMMUNITY'S CREDIT," by C. M. HATTERSLEY,
M.A., LL.B. (5/- net).

(Credit Research Library, 70, High Holborn, W.C.1).

A reasoned consideration of the theoretical content and practical implications of the Douglas Credit Proposals.

(5) Other Publications.

"UNEMPLOYMENT," by ARTHUR KITSON. (5/- net).

"DIVIDENDS FOR ALL," by W. ALLEN YOUNG.
(6d. net).

(The above are published by Cecil Palmer, London.)

"CARTESIAN ECONOMICS," by PROFESSOR SODDY.

(London: Henderson, Charing Cross Road).

For the study of the current financial and commercial system in practical operation, a concise statement is found in

"THE PRINCIPLES AND PRACTICE OF COMMERCE,"

by J. STEPHENSON, M.A.

(London: Sir Isaac Pitman & Sons, Ltd.),

and the various references in the preceding discussion to the works of Mr. Hartley Withers can be found in his books:

"BANKERS AND CREDIT" and "OUR MONEY AND
THE STATE,"

which are published by Nash & Grayson, London.