

ORDEAL BY BANKING

would be a safeguard based on indisputable constitutional tradition.

(g) A third count against the bankers is that they have *exercised undesirable pressure on the nation's representatives*, and have *undermined the essential freedom of the press*.

In parliament, they have persuaded three successive Prime Ministers to refuse to grant an inquiry into monetary policy in the face of a demand for it voiced by bodies including the British Federation of Industries and the Council of the Central and Associated Chambers of Agriculture.*

In the press, their influence has made a mockery of its "freedom." The unanimity of City Editors in singing the praises of the gold standard and puffing the prestige of so-called "financial experts" has only been equalled by the efficiency with which critical views have been suppressed.

"Newspapers have become one of the most available instruments by which the Money Power can make itself felt in politics."†

(h) *The banks have made a change in the money of the realm without the advice and consent of Parliament.*

* Eventually granted 1929.

† Bryce: *Modern Democracies* V. I., p. 123.

ORDEAL BY BANKING :
The Test of a Constructive Policy

Ordeal by Banking:

The Test of a Constructive Policy

By

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PREFACE

Since the collapse of the post-war boom, there has grown up a widespread belief, not confined to students of political science, that an artificial deficiency of purchasing-power is the root cause of stagnant industry and trade.

The discovery that this deficiency is inevitably produced in the course of production by a defect in the accepted methods of loan and cost accountancy is due to the work of an engineer, Major Clifford Hugh Douglas. The analysis of the defect and the principles which must be adopted to rectify it were originally published in *Economic Democracy*; and have been indicated and developed more recently not only in later books but also in the evidence Major Douglas was invited to give before the Standing Committee on Banking and Commerce in Ottawa, 1923, and before the MacMillan Committee in 1930.

Those who have realised the immense importance of this discovery believe that Major Douglas has found the clue by which we can escape from the financial labyrinth in which political leaders and financial

experts alike appear to be lost. From time to time an attempt has been made to draw attention to the defect which has been disclosed and the remedy which has been suggested. This book in its original form (1924) was a memorandum for private circulation amongst Conservatives and represented such an attempt.

There are two reasons why the ideas in the original memorandum should now reach a wider public. First, the disciplined contentment of the nation has been dangerously undermined by a misguided financial policy which now threatens to break down the loyalties and destroy the ideals which form the cement of civilised society.

Secondly, while the so-called financial experts follow their destructive path, Conservatives seem disposed to acquiesce in silence, because they fear to be charged with Socialist principles which they rightly detest. Criticism of the Bank of England has unfortunately been loudest when inspired by a desire to destroy this wonderful structure built up by British enterprise. The Socialist has used the evils resulting from a misguided policy as an excuse for demanding that the institution which has been the instrument for that policy should be placed under Socialist control. The Bank of England has come near to ruin-

ing the nation by pursuing anti-national aims. Yet, the Bank of England and the Joint Stock Banks may be seized by a Socialist government in order to serve yet more effectively the purposes of those whose loyalty is to every country but their own.

Conservatives, however, have too readily accepted the assumption of their timorous leaders that criticism of banking policy involves an acceptance of Socialist doctrine. No assumption could be more misleading, nor one more paralysing to the initiative and effort of those who wish to see the resources and power of the British banking system devoted successfully to the service of the national interest.

Our ancestors did not achieve religious toleration by abolishing the Church; nor political freedom by abolishing the Throne. The characteristic gift of England to the art of government has been the principle that the aims and policy of any institution, however tyrannical it may grow, can be deflected and harnessed to the service of the nation without any violent destruction of the institution itself. Thus, in order to ensure that banking policy shall in future be directed in the national interests, it is no more necessary to socialise the Bank of England than it was found necessary to make England republican in order to obtain

guarantees from the Monarch that he would serve the State.

The paralysis which has been creeping since the War over British agriculture, British industry, and British trade, and now attacks British finance, has coincided with the pursuit of anti-national and super-national aims by those who have been in a position to control British banking policy.

If England is to maintain her greatness, and to defend successfully her cherished traditions, it is clear that national policy must now be devoted less to the pursuit of Utopian plans for international agreement, and more to the tragic needs and thwarted ideals of the individual English home. It is to a similar task that the governments in the Dominions should turn their hand. This is the task which is demanded from British administration* wherever it serves the family now grown into the British Commonwealth of Nations. Only thus by her exertions will England save herself; and only thus by her example can she save civilisation.

* "No constructive work in India was more important than banishing pauperism." Mr. Gandhi, *The Times*, Oct. 3, 1931.

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Memorandum on a Constructive Policy

SUMMARY

PART I.

The difficulties confronting statesmen to-day are different aspects of a single problem: how to enable the immense productive-power of this country and of the world to be released to supply the demands of the population for a higher standard of living, and more leisure, without introducing the international rivalry for markets which now attends accelerated production.

- (a) Unemployment
- (b) Industrial Unrest
- (c) Decay of Private Enterprise
- (d) Decline of Agriculture
- (e) Over-population
- (f) The Cut to Education
- (g) Temperance
- (h) Loss of Faith in Political Institutions
- (i) Class-jealousy
- (k) The Decay of Patriotism
- (l) The Decay of Religious Life
- (m) Unrest in India, Egypt and Iraq
- (n) War

PART II.

The object of any constructive policy which is to solve the problem must be

- (a) To grant to the individual greater purchasing-power.
- (b) To render the individual increasingly independent of employment for his claim to purchasing-power.
- (a) *To grant to the individual greater purchasing-power.*
 - (i) Analysis of the relation of monetary policy to prices.
 - (ii) & (iii) do. do.
 - (iv) The failure of the policy of "stabilisation."
 - (v) The middle course between inflation and deflation is to apply an increase of money to reduce prices.
 - (vi) do. do.
 - (vii) The principle is important: the details must be worked out.
 - (viii) A conference is suggested for this purpose.
 - (ix) An outline of a credit discount plan.
 - (x) The credit basis of the discount.
 - (xi) How it can be calculated.
 - (xii) Why price-reduction is inevitable.

- (xiii) No government interference required.
- (xiv) Private enterprise stimulated.
- (xv) The example of one industry will be an inducement to all.
- (xvi) Competition stimulated.
- (xvii) The principle of the application of a fixed discount to a variable cost.
- (xviii) An analogy from the policy of the Bank of England.
- (xix) Reasons for the co-operation of the banks.
- (xx) The effect upon Foreign Exchange.

(b) *To render the individual increasingly independent of employment for his claim to purchasing power.*

- (i) The dividend as a suitable instrument for this.
- (ii) The principle is important: the details must be worked out.
- (iii) Two skeleton examples of how dividends can be paid to the public out of the public credit.
- (iv) The function of the dividend.
- (v) The extension of the dividend as a constructive alternative to Socialism.
- (vi) The dividend as a substitute for the dole.

(vii) How the dividend will release a more powerful incentive to work.

(viii) To remove the chief evil of unemployment.

NOTE.—Great importance is attached to *Part II., section (a)* paras. vii and viii, and the last part of para. xi. *Section (b)* para. ii.

PART III.

The present paramount position of the Bank of England, and the importance to a new policy of either co-operation or antagonism makes it necessary to examine shortly but critically

- (a) The objections which the banks may raise to the new policy.
- (b) The aims, methods and results of the existing banking policy which it is proposed to modify.
- (a) *The possible objections of the banks.*
 - (i) The objection that the public ought to be refused a higher standard of living.
 - (ii) A threat to personal liberty.
 - (iii) The objection that the necessary credit is the property of the banks.
 - (iv) Credit is public.
 - (v) Bank credit derives from public credit.

- (vi) Bank credit rests upon the pledged credit of the State.
- (vii) Technical criticism must be relevant to the purpose of the policy.
- (viii) Fifteen questions to banking critics of the new policy.

(b) *A criticism of banking policy.*

- (i) Danger of centralisation foreseen by 17th century Tories.
- (ii) Centralisation a menace to communications.
- (iii) Contralisation may provoke war.
- (iv) Centralisation is ineffective for defence.
- (v) Adverse effect of a return to the gold standard upon consumers and upon industry.
- (vi) The favourable effect of a return to the gold standard upon the profit and power of the banks.
- (vii) The bankers' aim to encourage use of bank currency and cheque-money.
- (viii) This involves the suppression of the tokens of the national credit.
- (ix) The Bank of England to possess powers of taxation.
- (x) Foreign to conservative thought.
- (xi) Subversive of the nation's sovereignty.

- (xii) The League of Nations as an instrument of banking policy.
- (xiii) Some vital omissions in Art. 30 of the Genoa Draft Resolutions on Finance.
- (xiv) Sir Henry Strakosch and others on the principles of central banking.
- (xv) Central banking and the League of Nations as the accomplices of revolutionary socialism in Hungary.
- (xvi) The nation's credit used for their enslavement.
- (xvii) "Stabilisation" and "world control" the official policy of the Central Banks.
- (xviii) Contrary to the public interest.
- (xix) Bankers regard money as a commodity.
- (xx) And exploit the fact that the life of the nation is dependent on it.
- (xxi) At a little cost, banks create money which is very valuable as being a draft on the public credit.
- (xxii) The public is taxed directly for all drafts upon its own credit.
- (xxiii) And also indirectly.
- (xxiv) The repayment of loans created by the banks admits the right of the banks to appropriate public credit.

- (xxv) The importance of (xxiv) in relation to the National Debt.
- (xxvi) How a capital levy would be favourable to the banks.
- (xxvii) Credit creation and taxation as instruments of financial power.
- (xxviii) Legal tender now almost entirely superseded by the cheque based on credit.
- (xxix) The menace to national sovereignty.

PART IV.

Conclusion. The issues raised by this Memorandum are:

- 1. Technical.
- 2. Constitutional.

1. *The technical issue.*

- (a) The policy summarised.
- (b) The method to be employed.
- (c) The changes necessary.
- (d) The burden of defence and of constructive criticism lies on the bankers.

2. *The constitutional issue.*

- (a) The constitutional issue only important if reform is denied.
- (b) The opportunity offered to bankers by the new policy of serving their

- country and advancing the peace of the world.
- (c) Opposition by the bankers to changes demanded by the nation must be regarded as an attack upon personal liberty, and the right of the nation to control its own money.
 - (d) If bankers cannot be induced to accept changes, they may be compelled to do so.
 - (e) For the Cunliffe Report upholds the claim of the bankers to tax the nation without its consent.
 - (f) And the bankers are attempting a monopoly detrimental to the public interest and therefore contrary to constitutional tradition.
 - (g) And the bankers have exercised undesirable pressure on the nations' representatives, and have undermined the essential freedom of the press.
 - (h) And by creating money which circulates to the disadvantage of legal tender, and by variation in the issue of it, they have challenged the accepted constitutional tradition that "no change should be made in the coined money of the realm without the advice and consent of Parliament."

“ Each operation has a *raison d'être*, that is an *object*; that object, once determined, fixes the nature and the value of the means. . . .

“ In presence of the difficulties which faced him, Verdy du Vernois looked into his own memory for an instance or a doctrine that would supply him with a line of conduct. Nothing inspired him. ‘ Let history and principles,’ he said, ‘ go to the devil ! after all, *what is the problem?*’ And his mind instantaneously recovered its balance. This is the objective way of treating the subject. Every operation must be approached from the side of its object, in the widest sense of that word: ‘ What is the Problem?’

Once the question is put in that way, the answer that follows is at the same time *complete* and *appropriate*, involving *the adaptation without reserve of the means to the end.*”

MARSHAL FOCH.

Marshal Foch: *The Principles of War* tr. Hilaire Belloc, Chapman & Hall, 1921, p. 14.

PART I.

The difficulties confronting statesmen to-day are different aspects of a single problem: how to enable the immense productive-power of this country and of the world to be released to supply the demands of the population for a higher standard of living, and more leisure, without introducing the international rivalry for markets which now attends accelerated production.

(a) *Unemployment.*

(i) The unemployed have become a dangerous source of industrial unrest, because they lack the opportunity to join with those employed in satisfying their wants. They are forced to accept the position that the capitalist system is unable to provide them with ample food, clothing, shelter, while denying to them the possibility of obtaining these for themselves.

(ii) If the wheels of industry could be set going again to provide a higher standard of living, most of the unemployed would be quickly absorbed.

(iii) The fact, however, must be faced that scientific progress and industrial efficiency are striving to eliminate human toil from the productive process, so that a given standard of living may be achieved by the employment of fewer men. Thus a grow-

ing mass of the population hitherto dependent upon wages for its standard of living must, in default of a new policy, be thrust in the future into enforced idleness and destitution. These will therefore lose the opportunity of independent and creative leisure, and will be condemned to the demoralisation of helpless poverty.

(iv) An increasing income is becoming available by the more efficient transformation of solar energy into commodities through the agency of steam, oil, electrical and tidal machinery. Unless a way can be found by a wide extension of the dividend system of payment to make the standard of living less dependent upon employment; the natural evolution of the productive side of society will be checked.

(b) Industrial Unrest.

In addition to that which arises from the co-existence of unemployment and poverty, there is discontent amongst those who are in employment. In times of boom the employed find that their standard of living hardly appreciates, since higher wages are always offset by higher prices. In times of slump their standard of living hardly remains steady, for the advantage of lower prices is more than counter-balanced by lower wages. " He that earneth wages earn-

eth wages to put it into a bag pierced through with holes."

(c) Decay of Private Enterprise.

Since private enterprise can only be stimulated by the possibility of satisfying wide demands for an increase in the standard of living, the inability of the public to purchase what they want is a fatal discouragement to the initiative of manufacturers and farmers. When such intensive production as took place in 1919-1920 results in an accumulation of stocks which cannot be bought by the public (which is nevertheless hungry for them), heavy losses are suffered through the resulting fall in prices. It is not surprising therefore, that producers and middlemen of nearly every trade are induced to form rings and combines to limit output and control minimum prices.

There is no doubt that as private enterprise is gradually forced for self-protection to take the form of trusts, and as competition vanishes, the working classes and the middle classes will be driven into the Socialist camp.

(d) The Decline of Agriculture.

This is a direct result of the decline in the standard of living which the farmer can

buy for himself and his labourers with the money he obtains for the sale of his produce.

(e) Over-population.

(i) The fear of over-population is exaggerated by the depression in industry. The national resources if fully employed are quite capable of providing an adequate standard of living for an even larger population than at present.

(ii) But even if this were not so, the rate of increase of population varies inversely with the standard of living. Poverty diminishes self-respect and foresight. A steadily increasing standard of living means a steady weakening of the temptation of uneducated men to use their wives as the object of irresponsible and uncontrolled physical desire. Those who are unnecessarily condemned to live like rats will always breed like rats.

(f) The Cut to Education.

This is justified on the grounds that economy, *i.e.*, restriction of the standard of living, cannot enable us to devote an increased amount of the national production to providing more and better school buildings, more and better educational apparatus, and a longer educational period.

(g) *Temperance.*

This is intimately bound up with the standard of living. Instead of attempting to dragoon men and women into sobriety, it would be more effective and far better for the national character to raise their standard of living in order to induce that hopefulness and self-respect which can best defend the individual against excess through encouraging in him the discipline of self-control.

(h) *Loss of Faith in Political Institutions.*

(i) There is no more serious symptom of the dangerous state of society than the contempt in which members of parliament are held by large masses of the population. And there is a growing fear that none of the political parties are sincere in endeavouring to remedy the evils from which the nation suffers. None who has recently canvassed can fail to have been struck by the number of voters who lacked faith in *any party*, and by the number who intended to vote "for the National Government" without more confidence in its programme than the fact that it looked hopeless without having actually been proved so.

(ii) Whichever party, therefore, is able so to adjust the financial and industrial machinery that it is able to function

freely and provide the prosperity of which it is capable, will not only establish itself as the public's benefactor for years to come but will perform an essential service to the nation and, indeed, to the world, by re-establishing the public faith in constitutional government.

(i) *Class-jealousy.*

This is stimulated not so much by envy of the wealth of the rich, but by distrust of the governing ability of the plutocracy. Labour has sufficient commonsense to see that the vast resources of our Empire are not being used at more than one half of their productive capacity,- and that an increased standard of living for the poor without diminishing that of the wealthy is physically possible. While the more intelligent realise the truth that the present national income if equally divided amongst the population could give only a minute increase in the standard of living; they also grasp a fact apparently ignored by their rulers that the national income of consumable goods could be enormously increased to-morrow, if the productive capacity of the country was consciously directed to the ends of peace as it was to those of war. It is not discomfort and privation which goads sensible Englishmen

into discontent, but the fact that both are unnecessary and that their families are being forced into starvation in the presence of potential plenty. On the one hand, they see fields untilled, factories idle, and ships laid up: on the other, they see palatial Bank buildings rising on nearly every corner site while a housing programme is held up by lack of funds. How can they be expected to believe in the unselfish wisdom of the wealthier classes?

(k) The Decay of Patriotism.

(i) The sense of national loyalty is the cement of the state. But the dislocation and discontent which is rife throughout the country, and the apparent uselessness of the sacrifices made during the war is cracking the national pride and sense of duty. The thought is swiftly changing the old couplet to

“ Here, and here did I help
England: how does England help me?”

(ii) But if the nation could experience a policy which could be seen by its accumulating results to have launched her on a sea with ever-widening horizons of prosperity for every individual family; then, the realisation of hopes long deferred might release such creative energy and good-fellowship as would enable England once again “ to save

herself by her exertions and Europe by her example.”

(1) *The Decay of Religious Life.*

(i) This, which so exercises the anxiety of the spiritual leaders of the nation, is not unconnected with the fear of the common people that modern Christianity is puritan and sees a moral value in poverty and drudgery even when the former is involuntary and the latter hardly better than slavery.

(ii) The nation is growing exasperated by the preaching that a “change of heart” will solve the economic problem, especially as it receives no answer to its practical commonsense questions.* For instance, how will the practical difficulties of the miner and his family be effected, if abandoning self-interest he goes to his employer and offers to accept half his present wages? Or, what will become of the mine owner, if, although faced with a loss, he raises his men’s wages? How will the shop-keeper, already probably in debt to his bank, help himself or his country, if he plunges into bankruptcy as the result of selling his goods with much good will at half their cost

* “World conditions would inevitably have produced grave difficulties, but our sins had aggravated what would have been a difficult period into a crisis of a desperate character. The only way of escape was by the path of repentance.” The Bishop of Chelmsford as reported in *The Times*, Oct 14, 1931.

because his clientele are coal-miners who cannot afford to pay more?

(iii) Nevertheless, instead of being offered a constructive policy, the nation is exhorted by priests and bankers that only "hard work" and "heavy sacrifices" and "a new spirit between employers and employed" can give them a long-to-be-deferred prosperity. How then can the nation believe in the sincerity of the Church or the disinterestedness of Finance? For it knows that both employers and employed are helpless to achieve anything without the consent and co-operation of the controllers of Money. The nation is intuitively distrustful of hypocrisy, and will not accept leadership from those "who bind heavy burdens and grievous to be borne; and lay them on men's shoulders; but they themselves will not move them with one of their fingers!"

(iv) Christianity is the foundation of our civilisation, and if men should come to despise it for those who dishonour it, nothing can stop us from relapsing into barbarism. It is for this reason that anarchy and bolshevism attack Christianity, deliberately trying to associate it in men's minds with poverty and drudgery.

(m) *Unrest in India, Egypt and Iraq.*

The Congress Movement in India has fed the flame of Nationalism upon economic

discontent.* The usual and widespread poverty in India which British administration has been unable to relieve has been aggravated by the heavier burden of debt laid upon the population by the monetary policy of recent years.

It is significant that, in face of the economic problem, Moslem, Sikh and Hindu sink their religious differences in order to make a common protest at the meagre benefits which they complain British rule has conferred upon India. Indeed, widespread poverty and occasional famine are contrasted with immense physical resources which are still undeveloped. This contrast, which shocks even the casual visitor to India, creates continuing anxiety for the civil servant and political officer, and stirs the wrath of the Indian patriot.

Unselfish British officials are handicapped by the suspicion, easily fanned by agitators, that policy in India has so far failed to raise the standard of living adequately because the development of Indian industry and agriculture has been sacrificed to the financial needs of the Lancashire cotton industry and to the financial ambitions of the City of London.

* In reply to a presentation on his birthday, Mr. Gandhi said:
"There were 700,000 villages in India where the people lived under ill-nourished conditions." *The Times*, Oct. 3 1931

Unrest in Egypt and amongst the Arabs in Iraq can also be traced to unsatisfactory economic conditions and the severe pressure of debt.

(n) *War.*

(i) We are growing anxiously familiar now with the fact that every country however physically self-supporting it may be, is forced for financial reasons to export the goods which cannot be distributed at home.

(ii) The problem of reparations and inter-allied debts is fundamentally one of distribution. For no policy has yet been accepted by either the political or financial rulers of the world which will enable surplus exports to be received by a creditor country which will not ruin the latter by checking its employment—the chief agency for the distribution of purchasing-power.

(iii) The process described by Mr. McKenna through which England passed prior to the war, is a process which is a condition not merely of the development but of the existence of every nation.

“For over two centuries, British capital (*i.e.*, credit) had been lent to other countries. Year by year England produced more than she either consumed herself *or could exchange for the products of other nations*, and she could not obtain a market for the

surplus unless she gave the purchaser a long credit. Foreign loans and foreign issues were taken up in England, and the proceeds were spent in paying for the surplus production. British factories and workshops were kept in good employment *but it was a condition of their prosperity that a part of their output should be disposed of in this way.***

(iv) The failure to direct the financial policy of any nation to an increase in the standard of living at home, commensurate with its enhanced productive power has made it impossible for it to absorb its own production. As the world becomes more generally industrialised the more countries get into the position of producing more than they can consume. Competition for external markets becomes fiercer and fiercer.

The inevitable outcome of such a situation is War; there is no other outcome.

(v) This, and this alone, is "the accursed fate" which Mr. Baldwin feels is "over the human race that we must be always quarrelling"; and if as he fears "there are bitter fights yet in store for so-called civilised nations over trade which ought to be common to all of

* Mr. McKenna. Speech to the Convention of the American Bankers' Association. *The Times*, Oct. 5, 1922.

us and a link rather than a destructive element,"* it will be due to a neglect to bring the distributive mechanism of the world—the financial system—into correspondence with the power of the producing organisation.

(vi) Against such a catastrophe the home markets of each and every nation provide the world's only safety valves. Unfortunately, those safety valves are loaded down with the weight of rusted dogmas of finance. Unless the pressure of productive power is soon released to provide a higher standard of living, civilisation will be destroyed in a widespread and final explosion.

* Mr. Baldwin. *The Times*, March 16, 1922.

PART II.

The fundamental principles of any constructive policy which is to solve wholly or in part the problems mentioned in Part I. must be:

(a) To grant to the individual greater purchasing-power than he has at present,

(b) To render him increasingly independent of employment for his claim to it.

(a) *To grant to the individual greater purchasing-power.*

(i) *Analysis of the Relation of Monetary Policy to Prices.* It would be regrettable and undesirable if an individual having sufficient money could not get delivery of goods; but we have no record of any such situation existing for any length of time. But it is monstrous and mad that if the goods exist and producers are eager to make more, that the majority of the nation has not the money to buy them.

(ii) Our experience of the never-ending chase of wages after prices and prices after wages must have impressed us at last with the simple but significant fact that money income is only the obverse of prices and prices are only the reverse of money

income.* Purchasing-power in the form of wages, salaries, dividends, and so forth flows out from the banking system into the pockets of individuals, and later after passage from one individual to another it flows back again in the form of prices collected. It is clear that upon the ratio which the volume and pace of the outgoing stream bears to the incoming stream of prices depends the effective purchasing-power of consumers. The growth of the overhead charge in comparison with the decrease in the direct wage cost of most articles makes an increasingly wide gap between the income of individuals and the price of the goods produced. The wages, salaries, dividends distributed over any period are not able to buy the production of that period. For this reason, the total possible output can only be disposed of by:

- (1) Destruction *e.g.*, in waste and war.
- (2) Export:—in return for credits abroad which can never be fully used to buy goods in exchange.
- (3) Sale to those who draw *new* money:—created and distributed in respect of a separate cycle of production, *e.g.*, “development” work to “create

* “More gold, more money and higher prices; less gold, less money and lower prices.” Sir Josiah Stamp B.B.C. address as reported in *The Times*, Oct. 13, 1931.

employment," as the phrase goes (more accurately, to create purchasing-power). But this new money itself inflates prices, so that present safety purchases future peril. Indeed, it is not long before the deposits of the banks, swollen by sums created through loans, bear too high a proportion to cash for the banks to dare to continue the process. Slump then succeeds to boom.

(iii) Purchasing-power depends on the relation of money income to the general price level. It can only be increased by money income rising faster than prices, or by prices falling faster than money income. Inflationists attempt without success to do the first; deflationists attempt without success to do the second. The evils resulting from either school of thought have been lucidly described by Mr. McKenna.

"One man may tell you to increase it (money) indefinitely and keep trade booming. But if you do, prices will soar indefinitely. You will first suffer innumerable social evils and finally the extreme depreciation of your currency will gravely impair your power to trade. Someone else may urge you to reduce the amount of money and bring prices down to the pre-war level or to such arbitrary level as he happens to think the

right one. Yes, and trade will become depressed and the unemployed will be with you all the time. Moreover, the burden of the National Debt with the higher value of money will become intolerable. . . . Inflation and deflation, the whirlpool and the rocks lie on either side of us, and if we are to avoid shipwreck the controllers of our monetary policy must steer a middle course.”*

(iv) *The failure of the policy of “ stabilisation.”*

The proposals made by Mr. McKenna, however, are not such as to enable us to steer a middle course, *and to keep the ship moving along it.*

The hope indeed has already been proved illusory that purchasing-power can be increased to absorb the possible output, and then regulated so as to continue to do so by means of variations in the bank rate, and without discarding the assumptions that all costs must be collected from the consumer in prices and all articles must be sold at what they will fetch.

“ When national output is below productive capacity, the policy should be to let money out; when production is at a maximum, the outflow of money should be

* Mr. McKenna. Address to the Midland Bank. *The Times*, Jan. 26, 1924.

checked, and, *if inflationary symptoms have appeared, money should be withdrawn.*"*

Now the very phrasing of this argument shows that Mr. McKenna rightly felt a doubt whether money could be released without inflationary symptoms appearing. In fact, an increase of money must cause inflation *if prices are left to find their own level.*

The error of Mr. McKenna lies in failing to realise the significance of money issued on account of capital development, that, being created and distributed in respect of a separate cycle of production, it is available to fill the gap of purchasing-power. But it fills it, only at the cost of raising the price of consumable goods in the future. Mr. McKenna has failed to distinguish between the results of financing the production of development work and of consumable goods. For, when stating that "the essential condition to justify an addition to the supply of money is that a greater volume of goods should be in course of production," he gave as an example that railway development was a suitable form of production to finance with the increased output of money.

The policy of distributing a full output by regulating the issue of money alone, leaving prices unregulated, has been tried and

* *The Times* Jan 26 1924

has failed both in the United States and in this country.

From the U.S.A. it was reported in March 1924 that "until a few weeks ago there had been no apparent accumulation of goods for speculative purposes. Production was moving fairly steadily through the channels of distribution and the stocks of basic commodities, accumulating only slowly, made not more than a reasonable reserve against emergencies. This was the situation at the beginning of this year, but it is not so now. Stocks are larger than they were—in some important lines at least, if not in all, but how much larger is not definitely known. *It is clear though that the lead of current production over current consumption is growing, and at a constantly accelerated pace.*"*

This view was borne out by later reports. For instance, the *Observer* noted in April, 1924 that "business men with interests in the United States are watching the developments there with some anxiety. It has been evident for some weeks past that a change is coming over the situation Production has for a long time been at a maximum; unemployment is at a minimum. It is declared that *the purchasing-power of the population is reaching saturation point*, and that only a severe fall in prices can maintain trade."

**The Times Trade Supplement*, March 22, 1924. [Author's

The effect of dealing with money in the way proposed by Mr. McKenna without dealing in any way with prices is not to permit the ship to pass forward between the whirlpool and the rocks, but to anchor her in the tideway between, so that she is swung first towards one peril and then towards the other as the tide of money flows and ebbs.

(v) *The Middle Course between inflation and deflation is to apply an increase of money to reduce prices.*

The saving policy, as Mr. McKenna rightly suggested, is to be found in a middle course; but this course must not be a stabilisation of purchasing-power but an effective increase of purchasing-power.

“For the primary essential of any currency is not stability; it is that whether stable or variable it should provide for the maximum production and distribution of goods and services desired by the community.”*

Now a policy which lies half-way between inflation and deflation may be expected to contain an element of both. Inflation means an increase of money and an increase of prices. Deflation means a decrease of prices and a decrease of money.

The effective compromise suggested is

* C. H. Douglas, Rept. Comtee on Bnking & Fin. Canada H.

clearly an increase of money and a decrease of prices. New money must be applied to finance a reduction in prices.

(vi) In the credit system as it is operated to-day, there is a continual stream of new credits created by the banks flowing out into the pockets of the nation. Under present conditions such of those credits as are not allocated to the repayment of previous credits tend to raise prices and cause inflation.

The policy proposed here is that the stream of new credits shall be applied to induce a reduction of prices. The economic system is blocked because the consumer cannot buy all he wants at the present price-level. The stream of new credits can be applied to remove that block by financing a reduction of prices. *Credits can be issued to make up the difference between the present price of an article and the price necessary to enable that article to be sold.*

(vii) *The principle is important; the details must be worked out.*

It cannot be too strongly emphasised that the practical application of the principle enunciated in the para. immediately above (II. a. vi) must be conditioned by the circumstances. The form in which the principle should be embodied will almost

certainly vary with different industries and different countries and with the moment at which such a policy is required to be launched. In economics no less than in engineering it is unsound in theory, and disastrous in practice, to design plans embodying certain principles without first going over the ground and allowing the local conditions to determine the actual details applicable and suitable to the peculiar problem.

(viii) *A Conference suggested.*

For this reason, it is suggested that a conference, or conferences, of persons technically expert and conversant with the internal conditions of particular industries and occupations should be called to devise or/and criticise constructively specific proposals designed to embody the principle enunciated above.

(ix) *An outline of a credit discount plan.*

In order to show that it is possible to devise simple practical measures suitable for the object in view, Major Douglas, in 1923, outlined the following plan to the Banking Committee in Ottawa.

Suppose that, induced by the benefits which would follow, a large number of departmental stores agreed to sell the whole

of their products at cost plus an agreed percentage of cost as profit. Say the percentage was 10, but the figure is not definitive; the agreed figure might be less, since owing to the large turnover this figure would in many cases represent a much larger return upon capital. In consideration of these firms agreeing to render a return of their costs in proper form at selected periods if and when demanded, they would be authorised to issue with each sale, taking place in the ordinary way, a Treasury voucher representing a discount on the sale price. The customers of these firms would turn in these vouchers to their banks or savings banks. And the banks would credit the customers' private accounts with the amount of the discounts. The banks having written up the accounts of their customers in this way, would be authorised to render the vouchers, or suitable certificates for large numbers, to the Treasury in return for which the banks would receive a credit from the Government.

Let us imagine a man who can only afford to spend £750 on a car buying one of which the selling price under the conditions we have outlined is £1,000. The purchaser pays £1,000 for it in the usual way, but in addition, on completion of the sale, he receives a Treasury voucher attached to his receipted bill authorising him to claim

from his banks a discount of say 25 per cent., which in this case represents £250. The bank writes up his account by £250, and at the same time writes up its own account by the same amount receiving from the Government a credit for £250. Thus the purchaser has in effect bought an automobile for a price less than he usually pays, and the motor manufacturer has sold *one more motor in four* than he would otherwise have sold. The purchaser has a car, and the manufacturer gains his profit. The bank has acted as an intermediary for the transfer to a private account of £250 of the public credit, which has been used as the public desires, namely to effect a rise in the standard of living. A commodity, an automobile in this case has been transferred to a member of the public who desired it by a manufacturer who was able and willing to make it, provided it could be sold. The bank may be authorised to make a charge to the Government for acting as its agent.

(x) It may be asked, "*What is the credit basis of the discount, which enables the Government to transfer a sum through a bank to a private account?*"

The answer is contained in the assumption made at the beginning of this Memorandum that there exists a surplus productive capacity which cannot be used because the public lacks purchasing-power. Since manu-

facturers can provide a bigger output given a market, and consumers are eager to acquire more goods if they can be delivered, what is required is an increase of purchasing power to equate the two.

The increase of purchasing-power required to draw on this unused ability to produce is represented by this discount. If there is no surplus productive capacity, there can be no discount. The discount comes from the same source as all loans and overdrafts issued by the bank—the public credit. The discount credited to a member of the public represents the delivery to him of a claim upon goods which could not be produced and sold if he was not given the claim.

(xi) *How the discount can be calculated.*

The discount to be granted must be calculated upon the surplus productive capacity. From time to time in this country, and more frequently and with greater elaboration in the Dominions, a census is taken of national production, actual and potential.

One basis for calculating the discount is to make it equal to the following fraction: Divide the cost value of capital depreciation during a given period plus the money value of exports plus the money value of goods retailed to the home consumer, by the cost value of capital appreciation plus the money

value of imports plus the cost value of all goods produced. Summarised the fraction is:

$$\frac{\text{Depreciation plus Sales at home plus Exports.}}{\text{Appreciation plus Production plus Imports}}$$

or more simply still: —

$$\frac{\text{Consumption.}}{\text{Production.}}$$

It must, however, be clear from the principle that the discount is to represent surplus productive-power which needs a market, that, provided the estimate is conservative, a discount figure could be decided which was known to be smaller than possible, and which would ensure that the productive process should be gradually stimulated instead of being turned on full power at first. From the political and administrative point of view, this is the wise course to adopt. On the other hand, if estimates warrant, the discount must be sufficiently large to provide the major incentive to manufacturers to accept the principle of a fixed unit profit on an increasing turnover.

(xii) *Price-Reduction is inevitable.*

The conditions under which this discount is to be issued embody the principle enunciated in II. a. v and vi that credits shall

be issued to induce a reduction in prices. It is clear that the price of an article subject to this discount cannot possibly rise as a result of the issue of the credit to provide the discount, *for the application of the credit only takes place as the result of a sale at a reduced price.*

(xiii) *No Government interference required.*

The proposal does not involve any compulsion by the Government, nor price-fixing.

Just as the brewing industry was induced by the offer of a rebate on the beer duty of 20s. per bulk barrel to reduce the retail price of beer 1d. per pint; so any other industry can be induced to sell at a gross price of cost-plus-an-agreed profit, in order to obtain the right to issue a discount to its customers. In fact, the inducement in the latter case is much greater. For while it cost the brewers 24s. per barrel to reduce the price 1d. per pint, and therefore, because the rebate was only 20s. per barrel, it forced them to provide 4s. per barrel towards the reduction; in the case of the discount, the manufacturer provides nothing towards it unless his unit profit on cost previously happens to have been more than

the unit profit which he agrees with others to accept in order to obtain the discount.

(xiv) *Private enterprise stimulated.*

It is in fact the increased turnover, which must result from a decrease in price financed by the discount, that will induce manufacturers to agree to sell at cost plus an agreed percentage.

Returning to the example of the automobile:—A purchaser has received a car worth £1,000 for a net payment of £750. (Thus the ratio between money distributed and price collected referred to in II. a. ii has been altered.) Clearly the manufacturer of this type of car can sell more of them at £750 than he can sell at £1,000. The higher the discount, the more he can sell; (hence the necessity of basing the discount on his and others' ability to produce). He makes more automobiles to fill his enlarged market, and as his output increases his overhead charge falls, and his turnover increases. Since he has agreed to sell at a fixed percentage profit above costs, with the reduction in his cost following upon the drop in the overhead charge, he is enabled to reduce the price of his car still further. This process of price reduction will continue until the limiting point is reached where the overhead charges tend to remain stationary or to increase with

the increased wage bill due to the necessity for a larger staff.

It can be seen from this example that the issue of the discount, under the conditions suggested, starts a process which means *for the consumer a gradual lowering of the price-level and for the manufacturer a gradual increase in his total profit* resulting from a larger turnover.

Thus a most valuable political result is produced as well as a satisfactory economic result. *For the manufacturer's self-interest is brought into line with the public interest*, and what benefits the one is found to benefit the other. Instead of the manufacturer being forced more and more into relying upon a large unit profit with a small turnover by forming trusts and combines to control output and minimum prices; the manufacturer is guaranteed a continually expanding market which will enable him to make the same, and indeed a larger total profit, by obtaining a small unit profit upon a large turnover. To place him in the latter position is the only policy which can save private enterprise from the disastrous blight of Socialism (compare I. c. above).

(xv) *The example of one industry will be an inducement to all.*

It is not even essential, although it might be thought desirable, to apply the principle of a credit discount on sales to every industry at once.

For, if we again take the case of the automobile, we can see that if the automobile industry alone was treated in this fashion, it is probable that some of the money saved by purchasers of cars in the form of the discounts received would be spent upon other articles than additional cars. Hence, the demand for other articles would tend to increase. Since, by our hypothesis, these articles are not subject to the discount policy, the prices of these would tend to rise. This would stimulate public opinion to demand that other articles should be treated as automobiles were being treated, and the system would thus be extended in answer to the public's wish.

(xvi) *Competition stimulated.*

The argument in para. (xv) above is also applicable to the internal conditions of a single industry; for just as there exists a strong incentive to extend the discount policy from one industry to another, so there is a strong urge within any particular industry for all the manufacturers to agree to the conditions. Those manufacturers who accepted the conditions and received the dis-

count would be able to undersell—perhaps by a very considerable amount—the others who refused. No brewing firm to-day could remain in business long if it attempted to charge the old price for beer and refused the rebate, which it is not legally compelled to take. Nor under the conditions we are proposing could any firm which refused the discount because it objected to a fixed unit profit or to cost accounting, long remain in competition against firms who accepted the plan.

(xvii) *The application of a fixed discount to a variable cost.*

This avoids all the evils attendant upon bureaucratic price-fixing from which we suffered during the war, and stimulates afresh the element of competition which is the life of and justification for private enterprise.

In the example of the automobile, different manufacturers would turn out similar types of car at varying prices just as they do now. Since their costs would continue to vary, their net selling-prices after the discount had been applied would also vary. But while the range of price between say The Alpha and The Omega would continue, both Alpha and Omega would be sold at a lower net price. The proposals do

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not interfere with the competitive relation between different manufacturers. They only scale down the general level of prices to within the purchasing-power of the public, considered in relation to surplus productive capacity.

(xviii) *An analogy from the policy of the Bank of England.* That the general level of prices can be altered without fixing prices is the principle upon which all monetary policy is based to-day. That the Bank of England can regulate the height of the general price-level by the manner in which it contracts or expands credit* shows that *monetary policy is irrelevant to administration*, and that no bureaucratic interference with private enterprise within the productive process is necessary in order to influence the selling-price of the product in the public's interest.

(xix) *Reasons for the co-operation of the banks.*

The rate of the credit discount would be determined solely in the public interest which would also be the interest of the manufacturer and of the consumer; and if bankers are willing to agree that *profit*

*"When the Bank Rate is put up, credit becomes dearer . . . and prices fall. Conversely, when the Bank Rate goes down, credit becomes cheap . . . and prices rise."
The Times, Oct. 20, 1931.

PART IIA

not power is the true interest of their shareholders; and delivery of product not creation of value is the true aim of monetary policy, there should be no obstacle to the co-operation of banking firms in the working of the plan.

It would therefore rest with the banks whether they were willing to act as agents for the Government in carrying out such a monetary policy in the public interest no less than in their own best interests. The fact that the traditional policies, which they have been carrying out hitherto, have brought civilisation to the verge of destruction is to be blamed, no doubt, chiefly upon the obsolete principles upon which the banking system has been operated rather than upon the system or the operators.

No interference with the management of the banks any more than with that of industry is either necessary or desirable. The ability of the officers of the great banks to appraise a person's financial credit is undoubted. And there seems no reason to doubt that the same officers under the same organisation would be less efficient in appraising a person's ability to produce and the extent to which he should be permitted to employ public credit.

Under the conditions of the new policy, the banks could and should continue to func-

tion much as they do now. In order to carry out the new policy, they could and should bring to bear all the initiative, knowledge and judgment which at present is at the disposal of the old. Just as private enterprise in industry is more efficient than a nationalised industry, so private enterprise in banking is probably more technically efficient than nationalised banking. The industrialist actualises public credit; the banker first mobilises and then administers it. The evils to which we have now been brought cannot be ascribed to technical incompetency on the part of either manufacturing or banking firms; but to unsound monetary principles.

These principles can be discarded and a new policy undertaken with the single objective of raising the purchasing-power of the public in order to raise its standard of living to a level commensurate with modern productive capacity. To do this, questions of administration and of nationalisation are really irrelevant. Nevertheless, it is strongly suggested that not only is a change of administration unnecessary, but it is also undesirable. Under the new conditions, the great banks as the recognised trustees of public credit would administer it for the beneficial ownership of the public, using their private enterprise and judgement to give

the public what it wants, and deriving payment and profit by performing a service instead of exercising a power.

It is apparent that one or more banks which were willing to act as agents in the way suggested would do a great deal more business than those who refused.

(xx) *Effect upon Foreign Exchange.*

It remains to notice the effect upon foreign exchange.

Returning to the automobile and the departmental stores:—

By hypothesis the credit discount is 25 per cent. At that rate of discount, the purchasing-power of the pound sterling will be raised 33.3 per cent., since £750 will buy £1,000 worth of goods. Whoever buys the pound with some other currency, say United States dollars, will buy with the idea of ultimately buying something with it. Owing to the price reduction financed by the discount, the pound which he buys will be 33.3 per cent. more valuable than before. He will therefore be prepared to pay in his own currency 33.3 per cent. more for it. So that if exchange is a free market, the exchange value of the pound in terms of the dollar will appreciate.

But the exchange is not a free market. In particular, the New York Exchange

which quotes the dollar rate for the pound is in the hands of a very few persons who make the price of exchange. The price of exchange is not always permitted to vary in accordance with the economic condition of the two countries for which the rate is quoted. This is especially the case when a political or economic object is to be gained by quoting an artificial rate, as was exemplified on the occasion of the fall in the dollar rate of the pound sterling in the autumn of 1924. For the depreciation in the pound undoubtedly assisted to defeat a Conservative Cabinet of which certain members had shown themselves eager to change the monetary and fiscal policy of the country in opposition to the wishes and the external policy of Wall Street.

Accordingly, it would be probable that this credit discount policy, which would reopen the home market to home manufacturers, and could be used also to capture export trade, would be attacked by the same group of persons.

An attempt would probably be made to discredit the policy by depressing the quoted exchange value of the pound. The result of depressing the exchange value of the pound would be to make it possible to buy the pound more cheaply with external currency, for the moment. Of these pounds bought in

this manner, each pound would buy 33.3 per cent. more in England than it did before, so that everyone who, say, exchanged dollars for pounds would be buying pounds at less than their economic value. This would result in a demand for pounds in order to expend them in buying English products. This demand would increase, consequent upon the expansion of output; the overhead charges of English industries would drop, and with them would drop prices. The process would continue until those who fixed an artificial rate for the pound in New York would be forced to accept the economic rate of the dollar quoted in London, and the pound would rapidly appreciate.

The importance of the rate of exchange as a dangerous economic weapon cannot be exaggerated under present conditions. *A difference of one cent in the rate making a difference in the total debt of approximately two and a half million pounds.*

It is also worth remarking that if by any method the pound sterling could be made to appreciate above par compared with the United States dollar, the debt of this country to the United States could be sensibly reduced.

method of distributing dividends to the public out of the public credit. Yet a hypothetical example may be useful as an illustration.

(iii) *Two skeleton examples.*

During the great coal strike a draft plan was put forward for the mining industry which included proposals for the formation of a Labour Bank. This was designed to finance the coal industry jointly with the owners. Out of the profits thus acquired, the Bank would purchase shares in the mines, and distribute the dividends received upon these shares to its shareholders, the members of the Mining Federation of Great Britain.

But a less complicated and more generally applicable plan could no doubt be devised. For instance, in connection with the policy of the credit discount.

The £250 discount on the £1,000 car would be payable on account of and would represent net capital appreciation. Now if the purchaser of the car was permitted to use that discount in payment for £250 worth of National Stock bearing say 5 per cent. interest, the stock being non-transferable and lapsing at the death of the owner, he would be taking the first step towards assuring for himself in the future a dividend upon

chased food, clothing, boots and other commodities could be given the opportunity of investing the amount of the discounts on their purchases in National Stock.

(iv) *The function of the dividend.*

In some such ways as these it is possible to give the public the opportunity to acquire financial control of the capital of the country; and "by the interest on this capital, it is possible to provide a purchasing-power for those who, as the progress of science marches on, will inevitably be displaced from the ordinary economic processes of production."* As it has been pointed out in I. a. iii., the trend of progress is to displace labour. If we are not to find ourselves in peril by attempting to resist evolution with artificial barriers, we have to devise some method, and that before long, by which those displaced from the productive machinery, and those not required to enter it, can receive purchasing-power commensurate with the productive capacity of the machinery and organisation by which their labour has been supplanted.

(v) *A constructive alternative to Socialism.*

In addition to others, there are two important reasons for a policy of extending

* C. H. Douglas. Canadn. Rept. 1923.

the dividend through the nation. First, it will form a natural and clear constructive alternative to Socialism. Socialism ascribes the evils of to-day to private enterprise and private property. It seeks to reduce capitalists to the paid servants of the State, and to make the wage, even more than it is now, the fundamental medium for the issue of purchasing-power.

We believe that such a policy is reactionary in conception and must prove chaotic in practice. We believe that private enterprise, released from the crippling effect of a disastrous monetary policy, can prove itself fully equal to any public demands which may be made upon it. But Socialism cannot be defeated nor private enterprise revived, unless we are prepared to advocate and to carry out a constructive development of industrial capitalism. We must extend one of its chief advantages—the dividend—to all classes in the nation. Instead of levelling down, we can raise all levels upwards. Instead of taking away a privilege from the few, we can increase it to them and extend it to the many. Instead of making capitalists into wage-earners, we can make wage-earners into capitalists. By giving the whole nation an experience of the benefits of being a capitalist, we can broaden and

strengthen the foundations of the State. When every member of the public in addition to any wage he may be competent and fortunate to earn, receives a dividend; those who now gibe at and condemn the system which makes it possible, will be ridiculed as foolish reactionaries.

(vi) *The dividend as a substitute for the dole.*

Secondly, the dividend could before long become a substitute for the dole. Although the latter is partly the repayment of sums previously subscribed in weekly insurance premiums, and therefore cannot in theory be classed as charity, yet in practice its influence is gravely demoralising.

With the presence of the dole, there exists a deliberate incentive to idleness. For in any trade, and there are many such, where the wage for hard manual work has fallen to a sum only a little larger than the dole, the difference is so small as to be no inducement. *The vital characteristic of the dole which so demoralises, is, that it is payment for idleness.* The smallest work for a mere pittance with which the enterprising may endeavour to supplement it, renders him unqualified to receive it, and liable to prosecution. Thus the dole is a powerful inducement to idleness.

But the *dividend* is a sum which is paid *irrespective of whether the recipient is at work or not*. Hence any wage received is a supplement not a substitution. The stimulus to initiative is great, for the enterprising increase their income by any wage they can obtain; and however small the wage, it becomes an addition worth working for. The whole wage and not merely the difference between wage and dole becomes the financial incentive to work.

(viii) *A new incentive.*

After some years however, if the rate of increase of productive capacity continues undiminished, the dividend, distributed directly in the form of interest and indirectly in the form of discounts on purchases, will become large enough to make secure for every family a reasonable standard of living. The incentive to offer service within industry which today is a financial incentive will then become a psychological one. Just as there was competition during the war amongst the dividend-drawing class to obtain an unpaid post of service for the sake of service; so we can guide the future steps of the nation into paths where work for the sake of work will be eagerly sought. So long as work is realised to be a qualification for drawing

purchasing-power, so long will the attitude of those who perform it be demoralised by an incentive to do only so much work as qualifies them for their pay, to obtain as much money for as little work as possible, and to take as long a time as possible over the performance of the work, in order to retain for as long as possible the qualification for the receipt of purchasing-power.

In contrast to this, by the gradual extension of the dividend we can slowly make the performance of work irrelevant to the receipt of purchasing-power. Thus, and only thus, can we encourage in men a self-respect and a pride in their work based upon independent service freely given. Thus, and only thus, can we revive the ambition of craftsmanship, and secure a single-minded efficiency of employers and employed, at last relieved from the real menace of unemployment.

(viii) To remove the chief evil of unemployment.

For the sting of unemployment lies in the loss of purchasing-power. Many employers to-day retain in employment men who are not required or are unsuitable and hesitate to install new labour-saving devices, because of the distress which they will cause to men dismissed. It is security

of purchasing-power and of the standard of living dependent thereon, rather than security of employment which should be sought.

If we look after purchasing-power; employment and efficiency will look after themselves.

NOTE.—Great importance is attached to *Part II., section (a)* para. vii, viii, and xi, last part. *Section (b)*, para. ii.

ORDEAL BY BANKING

PART III.

The policy proposed in this Memorandum involves a carefully planned and regulated distribution to members of the public of claims upon the public credit. This will enable them to purchase a higher standard of living commensurate with their increased productive-capacity.

Since the banking interest has been responsible hitherto for the employment of public credit, and since the case with which a new monetary policy could be launched would be greatly increased by loyal co-operation on the part of the great banks, it is relevant and important to examine

(a) The objections which may be raised by the banks to the new policy.

(b) The aims, methods, and results of the existing banking policy which it is proposed to modify.

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PART IIIA

(a) *The possible objection of the banks.*

(i) *The objection that the public ought to be refused a higher standard of living.*

This is the first of the three possible ways in which the bankers may choose to criticise the policy herein proposed. They may agree that the principles form a practicable foundation for giving the nation what it wants. But they may think that the nation is not the best judge of its own interests and that it is their moral duty to refuse to gratify its demands.

Such a criticism would imply that the primary object of the financial system which the bankers control is not to distribute goods and services to members of the public, but to act as an instrument of government. If the nation demands a higher standard of living, which is a fact, and there is productive capacity to satisfy that demand which is another fact; then those who are prepared to refuse changes in financial policy necessary to unite the two are using financial policy to over-rule the nation's will. Bankers who take this view may or may not

be benevolent. There is no question but that they are asserting oligarchy.

(ii) *A threat to personal liberty.*

To the manufacturer who wants to sell his product, to the consumer who wants to buy it, to all those whose initiative, and bodily health, and personal independence are crippled in the bonds of finance, such a claim by the banks to maintain oligarchy benevolent perhaps, but certainly maleficent, will strike a familiar note. The subject will be faced with another struggle for personal liberty. Having achieved religious liberty in the course of a protest against Papal supremacy, and having marched some way along the road of political liberty since he first challenged the Divine Right of the monarch, it is unlikely that the Englishman will for long submit to economic tyranny. And a way will be found to defend traditional liberties, if bankers attempt to claim infallibility and supreme power over finance, as it were by virtue of their apostolic succession from the goldsmiths and moneylenders of the past.

(iii) *The objection that the necessary credit is the property of the banks.*

The second objection which bankers may raise without disputing the technical basis of the new policy is that while the nation

may rightfully demand such changes in order to obtain what it wants, the policy involves the use of credit which bankers may claim belongs to them and not to the public.

The point at issue here then is the beneficial ownership of the material with which banks deal:—credit.

(iv) *Credit is public.*

That this credit is public not private requires little argument. And indeed the bankers themselves prefer rather to assert oligarchy than dare to deny this.

Real credit as opposed to the drafts upon it—financial credit—has been defined as “the correct estimate of ability to deliver goods and services as, when, and where required.”* Or, in the terms of a distinguished banking official, as that which “assumes that goods will be brought to market, or be produced in due time, *and sold*, and that securities, which in reality have their capital values based on future productive power, will not materially fall in current market values through lack of confidence in future production.”† We have emphasised the words “and sold,” for the

* C. H. Douglas. *Credit-Power and Democracy.*

† *British Finance* by A. H. Gibson and A. W. Kirkaldy (for the Brit. Assoc.). Pitman, 1921, p. 16.

reason that it is too often forgotten that it is consumption which provides the stimulus to production and gives meaning to it.

Credit in fact is "the joint creation of a stable government, a functioning industry and a consuming public, and if you take any one of those three out, there can be no such thing as public credit."*

(v) *Bank credit derives from public credit.*

The government's authority, the producer's power, the consumer's need, these three alone are vital. The fact that they cannot be mobilised to-day without the links of money and credit instruments is due to social habit. The tokens which are able to unite them are however still only tokens. "The whole of the claims on property and on goods and services which are issued by the banks rest for their validity on the public belief in these instruments, and the willingness of the public to validate them."* The financial credit of the bank is the public's belief in its ability to deliver tokens which will be validated. Not only must there be real credit on which these tokens can be a draft, but the public must be willing to honour the draft.

* C. H. Douglas, *Canadn. Rept.* 1923.

(vi) *Bank credit rests upon the pledged credit of the State.*

Moreover from time to time, and in certain circumstances, the banks are not merely dependent upon the public for the credit in which they deal, but also they are forced to apply for authority to the Government. The whole structure of banking credit is built on a basis of Treasury Notes* and Treasury Bills, the first of which had their origin indeed in the rescue of our now haughty money lords from bankruptcy. The loans under the Trade Facilities Act, to which they no doubt subscribe, are guaranteed principal and interest by the Government who thus takes all the risk for the bank to take all the profit.

The position has been frankly stated in *British Finance*:

“ On the whole, the experience of war, both in this country and in Germany, has proved that banking has its real apex in productive power and services mature consideration leads to the conclusion that neither in Germany nor in this country can there be a permanent collapse of the banking system, *provided that the State is ever ready to pledge its credit (in other words, the national productive power) in support of the generally accepted custodians and manufacturers of credit—the banks—*

* See note p. 64.

*in the event of a general demand for payment in the form of legal tender.”**

A question which bankers might answer, therefore, is:

“As business men who never give something for nothing, what inducement can you offer to the nation to continue to pledge its credit on your behalf?”

A new policy which raised the nation's standard of living might be a not ineffective answer.

(vii) *Technical criticism must be relevant to the purpose of the policy.*

The third objection which may be raised to the new policy is that technically it is unsound.

But here again the bankers must be careful that they judge the policy as a means for carrying out what the public wants, not what they may want. For instance, as a policy devised to maintain and further concentrate power in the hands of those who at present control the creation and distribution of financial credit, it is clearly ineffective. Indeed, it is a policy expressly designed to release the credit machinery of the country from such a control, and to offer to those who administer it, the opportunity of initiating a national revival by permitting

* *Brit. Fin.* p. 43. (Author's italics)

an immediate increase in the standard of living.

If the policy is to be judged on its merits, criticism must be directed to showing not how it may loosen the grip of the banks but how it may fail to release the creative energy of the nation. Destructively facts must be put forward which do not fit the theory of the policy. Constructively, let a theory be put forward which better fits the facts. Destructively, it must be shown that the policy will not provide the nation with what it desires, a higher standard of living and more leisure. Constructively, it ought to be shown how the supposed objections can be surmounted, or failing that, how the policy advocated by the bankers will give the nation what it wants more efficiently and with less difficulty.

But no technical objection can be valid in the eyes of any courageous statesman who wishes to serve his country, if it is a complaint that the policy will not carry out aims for which it is not designed, and in which the nation can have no interest.

(viii) *Fifteen questions to banking critics of the new policy.*

It would be interesting to receive answers to the following questions in writing, giving reasons in detail, and facts where relevant, from any persons who criticise the

new policy on the three broad grounds already indicated.

1. Do you dispute the fact that the nation desires a higher standard of living and more leisure?

2. Do you consider that the nation should be permitted to have this?

3. Do you dispute the fact that there is a great untapped reservoir of credit in the form of unused productive capacity—materials, factories, men—out of which an increase could immediately be provided?

4. Do you dispute the fact that this credit-power can only be released by providing an increased purchasing-power to members of the public commensurate with it?

5. Do you deny that this credit-power is public, and that therefore the public has a right to receive drafts upon it?

6. Do you consider that the policy proposed would be ineffective in transforming this credit-power into goods and services and distributing them to the public as required?

7. Can you suggest any changes which would make it more effective?

8. Do you consider that there are any economic or political or social difficulties which may arise from giving the nation what it wants in the way suggested? If so, what?

9. Can you suggest any changes which would enable such supposed difficulties to be

10. Do you dispute the fact that the progress of science involves the decreasing employment of man-power in the productive process if full advantage is to be taken of this progress?

11. Do you dispute the deduction from this fact that therefore it is necessary gradually to make individuals increasingly independent of employment for the receipt of purchasing-power?

12. Do you consider that the suggestion of extending the dividend by using public credit is an ineffective means for achieving the aim of 11?

13. Can you suggest a better way of achieving the same end?

14. Should you accept the fact stated in 10, but dispute the deduction in 11, what alternative deduction do you make, what course of action do you consider we should pursue and what means do you consider suitable for your end?

15. Should you accept the fact in 1 and agree to the suggestion in 2, and accept the fact in 3, can you suggest broadly any alternative policy which will achieve the result desired more quickly, efficiently and with less subsidiary objections such as you may have raised in replying to questions 8 and 11.

PART IIIB

(b) The aims, methods and results of the existing banking policy which it is proposed to modify.

In opposing the new policy, bankers should realise that their own claim to control public credit is open to grave criticism on the grounds of its aims, its methods and its results.

(i) As to its aims: the declared intention to make London once again the financial centre of the world is inconsistent with the maximum delivery to the nation of the goods and services it is demanding.

The very phrase suggests that centralised power is the underlying objective. Monopolies and centralisation which is but another word for Socialism have always been distrusted by the nation. The fear of centralisation of the money power was indeed the grounds upon which the Tories in Lords and Commons fought bitterly against the founding of the Bank of England, thinking "that the bank would grow to be a monopoly. All the money of England would

come into their hands; and they would in a few years become the masters of the stock and wealth of the nation.”*

(ii) *Centralisation, a menace to communications.*

There are indeed good reasons against the centralisation of finance. “Transportation is civilisation”—especially in the case of money which if in sufficient quantity can move any amount of goods of any kind, and any number of men of any nationality, anywhere. Money is our line of communication, upon which we depend for all our civil and commercial intercourse; and no nation ought to regard with equanimity the passing of control of it into the hands of a few persons. Even friends cast a menacing shadow over us when they straddle across it; and if, by chance, friends should prove false, who could be more dangerous foes?

(iii) *Centralisation may provoke war.*

Moreover, the attempt to centre financial power, which to-day is world-power, in London must provoke the antagonism of other financial groups. The public who are to be forced to work as pyramid builders may later be condemned to suffer in a desperate conflict which they never sought.

* Bishop Burnet's History of His Own Time 1693.

(iv) It may be objected that to centre finance in London is a policy of defence instead of ambition, and that "financial cohesion is essential for the preservation of the individuality of our race and the principles which guide it."* But this defence is unsound in theory and so far in practice has proved disastrous. The drain of skilled workmen to the United States and to Germany; the demoralisation of industry and agriculture; the gradual disintegration of the nation produced by the poverty and the insecurity of its individual members, all these consequences have followed the failure to use finance as a means of communication instead of a sceptre and a weapon. The levers of the American debt and the dollar exchange demand centralisation as a fulcrum upon which to rest in order to deflect our policy.† A rapid decentralisation of credit among the public in the form of reduced prices with a steadily maintained income would speedily change the menacing situation.

(v) *The adverse effects of a return to the gold standard upon consumers and upon industry.*

Secondly, the aim of returning to the gold standard is both politically and tech-

* Chairman of Barclays Bank. *The Times*, Jan. 26, 1922.

† The power those levers can exert upon the Budget policy of our Government has been proved in the recent crisis 1931.

nically vicious. If financial credit is to be based upon gold, those who can obtain command of gold will control credit; and, since credit controls industry and industry is the bodily life of the nation, they will thereby load a pistol which can at any moment hold the public to ransom.*

Technically, the Cunliffe report has naïvely stated the evils from the nation's standpoint. The "machinery" which, in the view of that Committee, must once more be "brought into play" was thus described:

"When apart from a foreign drain of gold, credit at home threatened to become unduly expanded, the old currency system tended to restrain the expansion and prevent the consequent rise in domestic prices which ultimately causes such a drain." (The word "tended" here just saves the word "prevent" from being inaccurate, for, in fact, credit expansion has rarely taken place without a rise in prices.)

A return to the gold standard therefore, involves a return to the time when no boom took place except at the expense of the consumer who was taxed by a rise in prices.

The Committee outlined the use of the Bank discount rate for checking the rise, and for restricting credit. As a result, "new enterprises were therefore postponed. . . .

* . . . In August September 1931

The consequent slackening of employment also diminished the demand for consumable goods, while holders of stocks of commodities carried largely with borrowed money, being confronted with an increase of interest charges, if not with actual difficulty in renewing loans and with the prospect of falling prices, tended to press their goods on a weak market. The result was a decline in general prices in the home market."

A return therefore to the gold standard involves a return to the time when every boom was followed by a slump. That slump was, as here described, deliberately produced. Unemployment as a consequence was complacently foreseen. The ruin of manufacturers, encouraged to that end "largely by borrowed money," was regarded as automatic.

(vi) *The favourable effect of a return to the gold standard upon the profit and power of the banks.*

But the Cunliffe Committee omitted to mention the results of "the play" of "this machinery" upon the profit and power of the banks.

Some evidence, however, has been given by bankers in their reports of the boom and slump following the war. The sums actually distributed by banks in dividends are not unduly large, but the proportion which the

dividend declared bears to the gross profit is certainly far smaller than is the case in industrial companies. No figures are available to test this for the profit publicly declared has already been applied to writing down the value of the banks' investments, in addition to the sums publicly set aside for depreciation and reserve. Nevertheless, it is not insignificant that the Bank of England increased its dividend to the rate of 12 per cent. in 1922 the year when manufacturers were suffering the losses of the slump deliberately caused by the Bank for, no doubt, in the Bank's view, excellent technical reasons. Those banks which did not increase their dividends during the slump maintained them. And in every case the same reason was given to contented shareholders. In the words of the Chairman of the Bank of Liverpool and Martins Ltd., at a meeting on January 24, 1922:

“With regard to our investments, the very conditions which so adversely affected commercial business led to a recovery in the price of gilt-edged securities, and we have no occasion this year to provide for any depreciation. On the contrary, the value of the bank's investments shows a substantial surplus beyond the amounts at which they stand in the books.”*

*The Times, Jan. 25, 1922

(vii) *The bankers' aim to encourage the use of bank currency and cheque money.*

Another declared aim linked up with the question of a return to the gold standard is "to reduce the ratio of legal tender required to support a given amount of credit."* Stated in other terms, the object is to induce or force the withdrawal of Government currency and replace it by a note issue by the Bank of England and by a greater use of cheques. As a step towards this it has been authoritatively suggested that the stamp duty on cheques should be removed in the hope that "we should then revert to the old system of an ordinary expansion and contraction of bank credit to meet the demands of commerce, controlled by the Bank of England in active co-operation with the other banks and the Treasury."†

(viii) *This involves the suppression of the tokens of the national credit.*

Two points may be noted about this suggestion. First, it is contemplated to withdraw from circulation the nation's currency which is a visible token of the sovereign right to create drafts upon the public credit. The fact that this issue saved the banks from bankruptcy in 1914 has not yet faded from the public memory. And it is worth remark-

* *The Times*, Leading Article, Dec. 5, 1922.
† *The Times*, Leading Article, Dec. 5, 1922.

ing the manner in which, like true usurpers, the banks are now prepared to kick away the ladder which once had raised them.*

(ix) *The Bank of England to possess powers of taxation.*

Secondly, it is stated precisely that the Bank of England is to be the controller of credit, and that the Treasury is only to be consulted as "in co-operation." This means in effect the exercise by the Bank of England of a power of indirect taxation far more important than that in the control of Parliament. Power to inflate or deflate, to raise or lower prices is to be placed beyond dispute or interference in the hands of the Court of the Directors. It is doubtful whether the Court of the Star Chamber itself exercised power more dangerous to individual liberty and more subversive of the Constitution.

(x) *The aim itself and the means suggested are alike foreign to Conservative thought.* If the bankers are not opposed now in this, it will be little use complaining of "taxation without representation" when economic torture† is fully applied. Nor will

*Under the Currency & Bank Notes Act 1928 the Bank of England was authorised to issue £1 and 10s. notes in substitution for the Treasury Note Issue.

† By the instrument of the 1931 Economy Policy, the nation is apparently being subjected to the ancient Chinese

Burke's warning to Frenchmen be worth repetition, then, to Englishmen:

“ Where have you placed the real power over monied and landed circulation? Where have you placed the means of raising and falling the value of every man's freehold? Those whose operations can take from, or add ten per cent. to the possessions of every man in England must be the masters of every man in England.”

(xi) In face of such a daring claim to oligarchy, it seems hardly worth noticing that insult is to be added to injury. The symbol as well as the reality of sovereignty is to be taken from the nation. For the banker's arguments in favour of the abolition of the stamp duty, omitted, not unnaturally, all reference to the constitutional significance of the stamp. Not yet has the crown of sovereignty been removed from any coin or token which circulates in the kingdom. No paper or bill can yet be used as money without the nation's permission duly certificated upon it that tribute has been paid. From time immemorial, and with good reason, control over money has been recognised a sovereign power. Though the power lies now in alien hands, the symbol luckily remains. And if the time should come when that symbol is discarded, all chance of economic liberty will pass until its replace-

ment as surely as vanished political liberty preparatory to the Restoration, when Cromwell called to his soldiers to "take away that bauble."

(xii) *The League of Nations as an instrument of banking policy.*

This suggestion of displacing the nation's money by bankers' money links up the policy with that pursued by the bankers under the cloak of the League of Nations.* For it is remarkable that every scheme of "reconstruction" proposed so far by "financial experts" and supported by the League of Nations has involved the withdrawal of the Government currency and the establishment of a new bank of issue with monopoly powers. Austria, Poland, Hungary and now Germany have one by one been drawn into the spider's web. And even France has found under the scourge of the franc exchange that "sound finance is the only guarantee of independence."†

(xiii) *Some vital omissions in Art. 30 of the Genoa Draft Resolutions on Finance.*

* "The Board decided to accept the offer to appoint a nominee to the board of the Intern. Agric. Mortgage Bank. This is the first *direct* [author's italics] co-operation between the Bank of International Settlements and an organ of the League of Nations." *The Times*, Oct. 13, 1931.

† M. Poincaré *The Times*, April 1, 1924.

It is probable that much might be learnt of the source of our national difficulties and the possibility of revolution by a close inquiry into the policy of central banking which was introduced into Article 30 of the draft resolutions prepared by the financial experts at Genoa.

“Measures of currency reform,” it said, “will be facilitated if the practice of continuous co-operation among central banks can be developed. A permanent association or entente for the co-operation of central banks not necessarily confined to Europe, would provide opportunities of co-ordinating credit policy, without hampering the freedom of the several banks.” An early meeting in London was suggested.

The resolution, however, did not mention what steps would be taken to secure that credit policy would be in the public interest, or how the public would be enabled at least to veto the employment of its credit in a manner injurious to itself, or what safeguards would be devised to secure that by “the freedom of the several banks” the public’s liberty would not be restricted.

(xiv) *The principles of central banking.*

However, a light has been thrown on the intentions of the central bankers by one of its ablest exponents, the Chairman of the League of Nations Delegation to Hungary

in 1921. An article upon "Empire Finance" and "The Principles of Central Banking," which was introduced by an editor's note that "this statement of principles recently received the endorsement of prominent bankers and financial experts,"* boldly laid down the following propositions:

(a) The central banks "must be private institutions—*i.e.*, their capital must be subscribed from private funds."

(b) "A substantial majority of their boards must be representative of the economic life of the country, and must be in a position of entire independence politically. *The Government nominees must be in the minority.*"

"A central bank must have the sole right of note issue." Their function is "to sustain the credit of the country, to guide its financial policy, and to intervene effectively in an emergency." Their method is "to hold the reserves of the commercial banks and only intervene in times of stress. They then extend credit liberally . . . to all those whose solvency and condition entitles them to receive it."

These principles are self-explanatory. There is ground for suspicion that the representatives selected under (b) will be mere

* *The Times Trade Supplement* May 21 1921 (Author's italics)

figure-heads chosen by the real controllers, the private shareholders in (a).

The Government is to be in a minority, and the financial policy of the country is to be removed from its hands into those of the bank. The fact that it can always be outvoted if it wishes to protest is a guarantee of its impotence.

The terrifying power which can be employed by the bank that controls the cash resources of commerce, can be imagined by considering how easily it could create a slump, and then could acquire some industrial block or some group of banks by denying that its victims were "entitled" to the credit which could save them. This is "Empire Finance" with a vengeance:— with the central bankers playing the part of Emperors.

(xv) *Central banking and the League of Nations as the accomplices of revolutionary socialism in Hungary.*

While the League of Nations' Delegation was still working in Hungary, an appreciative article appeared in *The Times*:

"Evolution in Hungary. The Swing of the Pendulum. A Dying System."

Little idea of the revolutionary tone of the article can be given by a few bald extracts. The substance of the article was that "every other country in Europe has made

some progress in social evolution since the war; only in Hungary, the first immature attempt of the Communists to revolutionise the social and political system led to an inevitable reaction which has only recently spent its force."

Apparently we are to infer from this that in other European countries, England for instance, the more mature, and not the first attempts to revolutionise the social and political system has made some progress.

The writer characterises as "an injustice" the imprisonment of those who express sympathy with the communists, and the refusal of employment to the Hungarians who fled the country because they were "compromised" by having served in the Red Army. However, he consoles himself with the fact that these "injustices" are the "last struggle of the privileged classes to prevent Hungary from moving with the times."

For "the strength of the great class of feudal landowners was broken by the Treaty of Trianon which transferred large tracts of Hungarian territory to the democratic republics of the new Europe. The second privileged class, the gentry, were also hard hit by the peace treaty, for it broke up the army and thinned the ranks of the higher administration which were their preserves.

Both aristocracy and gentry are now fighting hard for what remains to them ". . . . " The great question of land reform is coming to the fore again, and with it will come the real revolution in Hungary—the transfer of power from the classes to the masses."

At this point, enter "the financial experts" of the League of Nations. After exulting "that the division of the great estates must come sooner or later, and with it the final sapping of the power of the landed aristocracy" the writer of the article continues: "The restoration of Hungary's financial stability through the League of Nations is likely to hasten the process, for one of the first things that must be done towards balancing the budget is to tax the land more heavily . . . and the owners will be forced to sell large tracts of land which will come into the hands of smallholders. Count Bethlen has undoubtedly been holding back from this obvious and necessary step until he has the authority of the League of Nations."*

(xvi) *The nation's credit used for their enslavement.*

The collaboration of the monied interest and the mob in an attack on the landed and professional classes will not be surprising to Conservatives who still happen to read

* *The Times*. March 15, 1924.

history. The masses in Hungary may be blind to the fact that where the landed classes may have chastised them with whips the financiers will chastise them with scorpions. Their blindness, however, is fully equalled by Conservatives in England who shut their eyes to the deeds of their masters for fear of the power of this plutocracy.

The League of Nations promises to become as tyrannical an instrument as ever was the Holy Alliance. Unfortunately, a century ago the monarchs and their armies were visible foes who could be fought with like weapons. But the Emperors of Finance, who threaten liberty to-day, use the more subtle violence of strangling nations from a distance in the bonds of their own welding.

The material for the shackles which are fast being loaded on the nations has been provided by drafts upon their own credit, and the financial machinery has been changed from a conduit pipe for the delivery of goods and services into a hammer and anvil with which to forge the chains.

(xvii) *“Stabilisation” and “world-control” the official policy of the Central Banks.*

Since England has been for centuries the traditional home of individual liberty,

its present troubles are presumably due to the necessity of preventing it once again leading the van in defence of liberty, by loading it with the heaviest chains. At least we find that the official policy of the banking oligarchy has been inspired from London; and England has been so far the most severely maimed by the process of high-taxation and debt-reduction.

In addition to other evidence of this, a director of the Bank of England is reported to have delivered an address to the Institute of Bankers on December 10, 1924 declaring that "it is part of our official currency policy, in co-operation with the Central Banks of Europe, and, it is hoped, of the Federal Reserve Board of the United States, to give a world-extension to this faculty of price-control with the object of preventing undue fluctuations in the purchasing power of gold."

(xviii) "*Stabilisation*" *contrary to the public interest.*

The fact that stabilisation is to be aimed at is proof of the way in which the interest of the bankers diverges widely from the interests of the public. For, as we have already quoted in II. a. v, "the primary essential of a currency is not stability, it is that whether stable or variable it shall pro-

vide for the maximum production and distribution of goods and services desired by the community.”

(xix) *Bankers regard money as a commodity.*

The difference in the point of view can be simply stated. The principle at the root of all technical methods used by the bankers is that money is a commodity, which can be bought and sold like any other commodity and the output of which can be controlled by a trust which fixes the conditions of sale.

Under these circumstances, money as a medium of exchange must be subordinated to money as a standard of value. Like misers the bankers watch the figures being piled up in their books while the nation is condemned to privation in the midst of potential plenty.

The value of money and of all commodities can be enhanced by restriction of output. The greater the artificial scarcity the higher the price the public will pay for what it is permitted to receive, even to the price of its independence, its individuality, its soul. In such a policy, the gold standard and the bankers' discount rate can be compared to the bed upon which the prisoners of Procrustes were compelled to lie, and to fit which their limbs were stretched or amputated.

(xx) *Banks exploit the fact that the life of the nation is dependent upon money.*

Moreover, the advantage of dealing in money as a commodity is that one deals in something upon which all the world is now dependent, and for which the barbarism of barter is the only substitute.

Notwithstanding the stifling of public discontent, it is remarkable that the gathering murmur of protest has not been heard louder before this. Prospective passengers in the Scotch Express would be astounded if the booking clerk refused to issue them with tickets on the ground that he was engaged in gambling with their value. Yet only now is indignation rising at the fact that many are denied access to the service of the manufacturer, because he cannot run his machinery for them without financial credit from a banker. The bankers who aim at centralising finance, are threatening to corner tickets in which they already deal—tickets for tickets. They have yet to demonstrate that treating tickets (money) as valuable commodities instead of merely claims to service is the best way to run modern industry for the benefit of the public.

(xxi) Moreover, there is an additional inducement to deal in money as a commodity because under the modern condition of
which can be created with little cost. The

direct wage cost upon a loan of say a million pounds is only the salary of the clerk who enters the figures during the time he takes to put pen to paper. The overhead charge is possibly heavier, since amongst other items there is the depreciation charge upon the magnificent bank premises. Also there is the difference between the loss due to bad debts and the value of the deposited securities, which are confiscated in default of payment. This difference, according to the annual reports of the banks, is not always in favour of the banks.

The banks, however, are lucky in being able to write off such losses with little difficulty since loans are not made out of cash but out of credit; and whereas "money is but a symbol of restricted purchasing-capacity, the scope and power of credit are limitless."*

The source out of which banks make loans is not the savings of the banks, but the credit of the public.

(xxii) *The public is taxed directly for all drafts upon its own credit.*

Individuals and industries are at present admitted or refused access to public credit according to the decision of the

* Mr. Harvev. American Ambass. *The Times*. Dec. 1. 1922.

bankers. Bankers create drafts upon public credit, and loan these drafts on their own terms. A rate of interest has to be paid to the banks during the period in which the individual or firm is permitted to draw upon public credit. The total sum loaned is treated by the banks as their property and has to be repaid to them. The banks have no producing power themselves, no credit. But they have the privilege of drawing upon public credit, of loaning this credit to individuals and firms, and requiring these latter to collect from the public the sum loaned and to repay it to the banks. Thus with every loan, the banks appropriate public credit. Both interest for the use of it and the total sum has to be repaid *by the public* through the borrower *to the banks*. Thus no single member of the public or group of members can use the public credit unless he or they can undertake to force the public to pay to the banks the financial value of its own credit together with a charge for using it.

(xxiii) Moreover, the cancer which is sapping the nation's vitality goes deeper still. Not only does *the public* pay back to the banks through the manufacturer the sinking fund on loans, but it is *taxed indirectly* as well as directly. It pays twice over for the use of its own credit.

Whenever a loan is made by a bank,

which is not directed to the repayment of a past loan, the nation is taxed indirectly. The total amount of money upon which consumers may draw is increased by the amount of the loan. Hence there is an increased demand for goods, and hence prices rise. When prices rise the purchasing-power of the nation is diminished by the increase. The stock of goods for sale is not immediately increased to correspond with the increase of money. Hence the borrower is given by the bank a claim upon the goods actually in the market or on their way, which claim diminishes by a fraction the amount which can be claimed by all other consumers.

Thus production financed by a credit is in reality paid for by the indirect taxation of the public through the consequent rise in prices.

Having thus paid for the production, the public does not own it. Nor does the manufacturer, until he has collected from the public through prices the total sum originally "loaned."

(xxiv) *The repayment of loans created by the banks admits the right of banks to appropriate public credit.*

Here can be seen a difference between a loan subscribed by the public out of savings, and a loan created by the banks either

on their own behalf or on behalf of customers who borrow to invest. The distinction is between a loan of old or new money. For while failure to repay the first is clearly robbery of the lender since he has temporarily surrendered some money in expectance of its return; a repayment of the second can only be justified on the same grounds by the assumption that the banks own public credit and have temporarily given up their property in expectance of its return.

(xxv) *The distinction is of vital importance in any discussion on the repayment of the National Debt.* For if a large part of the debt was simply a creation of *public credit* by the banks, that block of it which was thus created should not be paid back, unless we are to permit the banks permanently to appropriate public credit.

For instance, on the 2nd August, 1919, the floating debt (outstanding Treasury Bills plus Ways and Means Advances) was £1,181,255,000. In the two following years the total rose by about 200 millions and on April 26, 1924, after repayment of some sums stood at £755,245,500. This sum represents drafts upon the public credit which the banks drew on behalf of the Government. The manner in which the Government borrowed on Ways and Means has been fully described by the Cunliffe Committee 1918.

The detail of the manner in which the sums were credited to the Government in the books of the Bank of England and passed via the accounts of contractors out of the Account of Public Deposits into the Account of Other Deposits as cash for the Joint Stock Banks is illuminating.

It is remarkable that if the Bank of England had acted as the Issue Dept. for Government Credit, for an agreed sum; the war could have been financed to the same extent through a similar process without the nation being forced to pay interest on such a huge sum or being compelled to pay back its own credit to those to whom it did not and does not belong. If every time the Government raised a credit at the Bank of England it had paid for it by the deposit of a Treasury Note of the denomination required, the inflation which took place, and which paid for the production by the indirect taxation of the rise in prices would have been precisely the same.

Only, in that case, the Government would have exercised the sovereign right of coining money and printing drafts upon the nation's credit, instead of permitting a private corporation to do so on the terms that when the draft had been written out the credit should be pledged to it, and charged with a percentage as well.

By similar processes, the Banks during and since the war acquired a lien on other drafts and now hold a large percentage of Government securities. In addition, nearly half their deposits are balanced by " securities " or " advances " which indicates that probably a large proportion of Government securities in private hands is pledged to the banks in return for loans and overdrafts.

(xxvi) *How a capital levy would be favourable to the banks.*

That the banks own or have a lien upon, say, only 75 per cent. of the Government Debt is one of the elements of greatest danger in the situation. In the event of a Socialist Government proposing a Capital Levy for the repayment of the Government Debt, it is interesting to notice what effect this would have upon the position of the banks in relation to the present private holders of the debt.

If such a thing occurred, the remaining private holders of the debt would be forced to realise, and the banks could buy. As other securities fell, the banks could buy again. Industry could not continue with so much credit being cancelled. The banks could step into the breach and loan the necessary sums at say 5 per cent., 6 per cent., 7 per cent.

The final result would be that the individual and firms in the nation, instead of being in debt *through their Government* to the banks to the extent of 75 per cent. of the debt at a rate of interest varying from 3 per cent. to 5 per cent. would be *directly in debt to the banks to the full amount of the debt at the higher rate of interest.*

(xxvii) *Credit creation and taxation as instruments of financial power.*

The margin of say 25 per cent., which is still held freely in individual and business hands is a margin of safety which illustrates in the possible incident given above, that debt is dangerous in proportion as it is centralised.

It is clear that if the ownership of the debt was uniformly distributed over the tax-paying population, the amount of interest collected each year by taxation would be distributed, less charges for administration, at the end of the year to those from whom it had been collected.

This extreme case illuminates the fact that the present method of credit creation by the banks, and the taxation to provide interest and sinking fund are parts of an effective mechanism for concentrating financial power.

(xxviii) *Legal tender now almost entirely superseded by the cheque based on credit.*

Enough has been said to suggest that the key to the situation lies in the process by which the banks can create credits which are operated upon by cheque, which have to be repaid and which can be transformed at will into legal tender. As the Cunliffe Committee has pointed out, owing to the development of the cheque system, purchasing-power is now largely in the form of bank deposits operated upon by cheque. In place of the primitive system of coinage at the mint, money is now written out with ink and paper at the banks.

“The amount of money in existence varies only with the action of the banks in increasing or diminishing deposits. . . . Every bank loan and every bank purchase of securities creates a deposit, and every repayment of a bank loan and every bank sale destroys one.”*

The increased use of this form of money in preference to legal tender is of course encouraged by the banks, and the comparative figures are somewhat astonishing.

In the report of the Bankers' Clearing House Jan. 1st, 1923, it was pointed

out that "the use of the cheque has supplanted the legal currency of the country" Statistics taken recently at banks in the City show that the proportion of notes and coin to amount paid in to Lord Avebury's bank in 1865, which was estimated at 2.7 per cent. "has sunk to less than 0.7 per cent. in 1922 or out of a million paid into a bank only £4,260 consisted of bank notes and £2,640 of Treasury notes and coin; indeed it may be stated that except for the purchase of property, payment of wages, household and pocket expenses, *legal currency has been almost entirely superseded by the cheque based on credit.*"*

(xxix) *The menace of national sovereignty.*

Well might the report assert with pride the part played by the clearing system "in enabling the cheque to reach its present paramount position in the currencies of Great Britain and America." But the nation in examining the results of this "paramount position" of the cheque will wonder whether any element of sovereignty has passed in the process.

At least the Conservative Party if it ever turns back to the warnings of Burke upon the French Revolution will recall with

* *Financial Times*. January 2. 1923. [Author's italics.]

PART III.

anxiety his view that " a paper circulation substituted in the place of the coin of the kingdom, becoming thereby the substance of its revenue, as well as the medium of all its commercial and civil intercourse must put the whole of what power, authority and influence is left, in any form whatsoever it may assume, into the hands of the managers and conductors of this circulation."

PART IV

Conclusion.

“ Now I conceive, it is obvious, by what means, and by whom, the trade of the nation has been brought to so low an ebb, and so many public debts contracted, by the consequence of which, many thousands of honest industrious families in London, etc., are reduced to extreme poverty, at the same time, not knowing the true cause from whence their evils have risen. These things are very hard to flesh and blood, when we consider how all our calamity appears to have been brought upon us, by those very persons, in whose hands we entrusted our lives, liberties and estates.”

A letter to a Country Gentleman, 1698.

The issues raised by this Memorandum fall broadly speaking under two headings.

1. *The first is a technical issue.*

(a) To secure to the nation a higher standard of living commensurate with increased productive capacity is a policy which will provide the master-key to nearly all our economic, political, and social problems.

(b) Such a policy can be devised by employing the national credit to finance a reduction of prices, and to provide dividends out of the increased output thereby stimulated.

(c) The changes necessary are merely those of financial method and financial policy. The management of the banks, the management of industry, the property of shareholders, the daily habits of the people—all the delicate organism of society which has grown up around the principles of private enterprise and personal initiative need not and should not be interfered with.

(d) In view of the disastrous failure of so-called "orthodox" financial principles, the burden of proof lies with the bankers to defend their policy, which, whatever its merits, lacks, in public estimation, the most important merit of all—ability to "deliver the goods."

More especially, any criticism of this Memorandum which bankers or their ad-

visers may be asked to make ought to be constructive in character. In view of the increasingly critical condition of the nation and of society the world over, it is due to the public that they should show how banking policy with or without modification can "deliver the goods" more efficiently in the future than in the past, and better and quicker than will the policy herein outlined.

2. *The second issue is a constitutional issue.*

(a) This need only be raised if bankers should decline to agree to modify their policy in the public interest. If, by an effective change of policy, the bankers remove the economic and political grounds of the indictment, the nation is unlikely to be profoundly disturbed by the constitutional aspect of their position.

(b) It cannot be doubted that there must be many bankers who are sufficiently loyal to their country to relinquish a powerful monopoly which chance, perhaps, has put into their hands, and to which constitutionally they are not entitled. And many will surely be the more eager to do so, if they realise that by a change of policy, they may serve instead of rule their country and may use the instrument of finance to help instead of to hurt their nation.

They will thus exchange the dangerous position of being unpopular dictators for the respected security of distinguished public trustees.

It is confidently hoped that more than one banker will see in the policy here suggested an opportunity for honourable service, and a means by which their own enterprise and wisdom and the technical knowledge and elaborate organisation at their disposal can be employed not only to the financial benefit of their shareholders but to the material welfare of the whole nation and to the full release of the creative possibilities of the Empire.

In addition, it is possible for them by the sacrifice not of wealth but of power to show the world the way to peace. The increasing fierceness of the competition for foreign markets is an artificial product of "orthodox" banking policy. In taking the earliest opportunity to modify it, bankers can show a vivid example of the goodwill which they so fervently preach. By their help along lines such as those suggested by this Memorandum, the decisive influence which cosmopolitan financiers have been permitted to exert upon international relations can be checked and modified, so that political efforts to establish peaceful relations between the nations can operate freely

without being handicapped by a subservience to the interests of powerful banking groups.

(c) On the other hand, if it should unfortunately appear that opposition based upon self-interest is exerted to prevent the nation from obtaining what it wants in a way it thinks possible; it will become the duty of the true Conservative party of the day to defend the constitution against such a dangerous flank attack. Once again in our history a conflict decisive for personal liberty will then be opened around the constitutional issue of the right of the nation to control its money.

The nation is not only "devoted to liberty, but to liberty according to English ideas and on English principles. Abstract liberty, like other mere abstractions, is not to be found. Liberty inheres in some sensible object; and every nation has formed to itself some favourite point, which by way of eminence becomes the criterion of their happiness. It happened . . . that the great contests for freedom in this country were from the earliest times chiefly upon the question of taxing. Most of the contests in the ancient commonwealths turned primarily on the right of election of magistrates or on the balance among the several orders of the state. The question of money was not with them so

immediate. But in England it was otherwise. On this point of taxes the ablest pens and most eloquent tongues have been exercised; the greatest spirits have acted and suffered. In order to give full satisfaction concerning the importance of this point, it was not only necessary for those who in argument defended the excellence of the English Constitution to insist on this privilege of granting money as a dry point of fact, and to prove that the right had been acknowledged in ancient parchments and blind usages to reside in a certain body called a House of Commons. They went much further; they attempted to prove, and they succeeded, that in theory it ought to be so, from the particular nature of a House of Commons, as an immediate representative of the people, whether the old records had delivered this oracle or not. They took infinite pains to inculcate, as *a fundamental principle*, that in all monarchies *the people must in effect themselves, mediately, or immediately, possess the power of granting their own money, or no shadow of liberty could subsist.*"*

(d) If the bankers are unwilling to modify the policy of their private companies so as to make banking consistent with

* Burke on Money and Liberty. Mar. 22. 1775.

the public interest, it will become a grave question as to what steps will have to be taken to enforce the necessary modification. Under present conditions the British people will not long continue to acquiesce in the independent control of their money by those who are not responsible to parliament.

(e) *Taxation without representation.*

The policy outlined by the Cunliffe Report contemplates the return to a policy in which the nation suffers under a severe method of indirect taxation by alternate policies of inflation and deflation to be carried out at the will of the Court of the Directors of the Bank of England. No avenue exists whereby the desire of the nation shall be consulted as to the purpose for which loans shall be granted, the methods of issue, the persons who shall receive them. Yet every loan is paid for out of the proceeds of indirect taxation through inflation, and the methods of issue necessitate the periodic disturbance of boom and slump.

In addition, the Bank of England claims the ownership of public credit whenever it creates drafts upon that credit to be loaned to the public and repaid to the Bank with interest. A day may come when our posterity will wonder why Englishmen acquiesced for so long in a method which is unduly dignified by the term "taxation."

(f) In addition to the charge of attempting to exercise a power of taxation uncontrolled by parliament and without the consent of the nation, there is a second count against the Bank of England that it has been *endeavouring to create a monopoly* that has been and will be “mischievous to the state by raising the price of commodities at home or hurt of trade or generally inconvenient.”*

In view of the declared policy of the Bank of England to act “in co-operation with the Central Banks of Europe, and it is hoped of the Federal Reserve Board of the United States, to give world-wide extension to (this) the faculty of price control,” the dangers of the formation of a Money Trust not merely of England but of the world, are brought closer.

But will the Conservative Party permit the Court of the Directors to reach such a position of power that they can refer not merely to the Bank of England but to the England of the Bank?†

Against any attempt to exercise such a monopoly, the policy of the Memorandum

* 21 & 22 Jac. I, Cap. III.

† At the half-yearly Court of the Bank of England, March 20, 1930, the Governor agreed that “so far as overseas was concerned” the Bank held the hegemony of the world “He liked to hope too that they might expect and see during the next period of ten years a similar hegemony in this country in which the Bank of England might play a not inadequate part.” *The Times*, March

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would be a safeguard based on indisputable constitutional tradition.

(g) A third count against the bankers is that they have *exercised undesirable pressure on the nation's representatives*, and have *undermined the essential freedom of the press*.

In parliament, they have persuaded three successive Prime Ministers to refuse to grant an inquiry into monetary policy in the face of a demand for it voiced by bodies including the British Federation of Industries and the Council of the Central and Associated Chambers of Agriculture.*

In the press, their influence has made a mockery of its "freedom." The unanimity of City Editors in singing the praises of the gold standard and puffing the prestige of so-called "financial experts" has only been equalled by the efficiency with which critical views have been suppressed.

"Newspapers have become one of the most available instruments by which the Money Power can make itself felt in politics."†

(h) *The banks have made a change in the money of the realm without the advice and consent of Parliament.*

* Eventually granted 1929.

† Bryce: *Modern Democracies* V. I., p. 123.

PART V

Fourthly, the manner in which the banks create deposits out of loans introduces into circulation new money which diminishes the value of the legal tender in circulation by raising prices. The public suffers just as if the coinage was deliberately counterfeited. If counterfeiting was once high treason and is still a felony, while substitution is permitted and profitable, what has happened to the logic of the law?

Perhaps insufficient attention has been given to the fact that parallel with the gradual assertion of Parliamentary control of taxation there has also been a constitutional development embracing the sovereignty over the coinage and over monetary policy.

From 1311 when, during the regency of the Lords Ordainers, an ordinance prohibited any change in the money of the realm without the consent of the Barons in Parliament, until 1914 when H.M. Treasury exercised on behalf of King, Lords and Commons the sovereign right of coining money in the form of Treasury Notes, our history has traced out the gradual displacement of autocracy and oligarchy in the realm of money, and their substitution by Parliamentary sovereignty. Thus Sir Matthew Hale was able to lay down the legitimation of money, and the giving it its denominative value was

an unquestioned prerogative of the Crown, but owing to the important effects which alterations in the nature and value of the coins have had, and must always have upon the commerce of the country and the well-being of its citizens, there gradually grew up the custom founded upon protests, petitions and restraining acts by the representatives of the nation that no change should be made in the coined money of the realm without the advice and consent of Parliament.

Accepting Sir Matthew Hale's view of constitutional development, it is clear that if the money put into circulation by the banks through loans and overdrafts ranks *pari passu* with the coinage, and if changes in the purchasing-value of the coinage can be and are produced by alterations in banking policy, and if the coined money of the realm has sunk into insignificance compared with the money circulated by the banks; the claim of the banks to exercise what they may consider is a benevolent oligarchy is subversive of the constitution.

Ought the nation to surrender lightly to the Bank of England, privileges so laboriously acquired from the monarch? That is the constitutional issue which sooner or later will have to be faced.

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PART IV

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