

# Social Credit

By

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

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## **PREFACE TO REVISED EDITION**

THE first edition of this book was issued in 1924 in order to correlate the financial

theories, which have since become widely known under the same title, with the social, industrial, and philosophic ideals to which they are appropriate.

At the time that it first appeared (in 1924), it was generally assumed that the world was entering upon a period of increasing prosperity, and such prosperity in a material sense did accrue in the United States to an extent never previously experienced.

It will be noticed that the view that this prosperity could be of long duration was not held to be consistent with the theories of Social Credit, so long as the conditions imposed by the existing financial system remained unchanged, and it was suggested that such prosperity would be followed by a crisis of the first magnitude. The same views were expressed in a long cross-examination before the select Committee of the (v) Canadian House of Commons on Banking and Industry in 1923, and have unfortunately proved to be only too well founded. The pressure of the world crisis, and the fear that it may develop into forms threatening the extinction of civilisation, have brought home to large numbers of people in every country the instant necessity of finding an explanation of the paradox of poverty amidst plenty, with its accompaniment of social and political stress and strain, as well as the urgency of a remedy.

In every country of the world, and more particularly in the British Dominions overseas, the financial system has been brought to the Bar of Public Opinion as the chief factor in world unrest, and there is little doubt that the jury has confirmed the Verdict somewhat rhetorically expressed by Mr. William Jennings Bryan in his famous election speech: "The money power preys upon the nation in times of peace, and conspires against it in times of adversity. It is more despotic than monarchy, more insolent than autocracy, more selfish than bureaucracy. It denounces, as public enemies, all who question its methods, or throw light upon its crimes. It can only be overthrown by the awakened conscience of the nation."

The present edition of the book has been (vi) completely revised, and new matter has been added to amplify the meaning it was intended to convey, but the main thesis remains substantially unaltered as a result of the confirmation which events have supplied as to its essential soundness.

C. H. DOUGLAS.

TEMPLE,  
.... May 1933. (vii)

## PREFACE TO THE FIRST EDITION

THERE is an ancient saying (which will bear consideration in these days of change and unrest) that the devil is God upside down. A consideration of many of the injurious and tyrannical practices which obtain support in Great Britain and America under the cloak of such words as Justice and Democracy, and the object lesson provided by Russia, and

possibly by Italy and Spain as the consequences of their extension, may serve to emphasise the necessity for clear thinking in this matter.

In the following pages an endeavour has been made to indicate the general lines which, it would appear, are essential in dealing not only with the concrete problems, but the perverted psychology which, in combination, threaten civilisation.

C. H. DOUGLAS.

TEMPLE

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## PART I: PHILOSOPHY

### CHAPTER I

#### STATIC AND DYNAMIC SOCIOLOGY

WE have in England, probably to a greater extent than elsewhere, two distinct systems of education flourishing side by side. The distinction is clearly marked in the public schools and universities; but it is traceable through every grade of educational institution by the arrangements which are made to prepare candidates for public and other examinations. These two systems in the Public Schools are the Classical and the Modern sides, and have their equivalent Triposes and Honours Schools in the universities. One of these systems is Aristotelean, the second is Baconian.

Now, it does not seem to be so clearly realised as it should be, that these two systems of education are, considered separately, incompatible. The classical system is the embodiment of an attractive and artistic ideal or conception of the nature of society, and the conditions under which society lives, moves, and has its being. It is above, outside, possibly in advance of, (4) facts. The modern school, of which inductive natural science, based upon the experimental ascertainment of fact, is the backbone, has not essentially to do with ideals at all. It is realistic; its first postulate is that forces act in a similar manner when placed in a similar relation to each other. It refuses to admit, as a fact, anything which cannot be demonstrated, and as a theory, anything which does not fit the facts. For example, the classical ideal contends that men "ought" to be good, brave and virtuous. The modern, that it does not understand the meaning of goodness, that bravery and virtue are not capable of exact definition, and, that so far as the word "ought" has any meaning, it postulates the existence of a force so far undemonstrated.

It will be recognised on a moderate consideration, that the effect on the everyday world of these two philosophies cannot fail to be disruptive. The logical outcome of the classical ideal is to lay the emphasis of any observed defects in the social organisation on defects in the characters of the persons composing the society. Wars occur because people are wicked, poverty, because people are idle, crime, because they are immoral. Material progress, which in its essence is applied Science, is repulsive to the (5) Classical mind, because it does, in fact, stultify the rigid Classical ideal. Conversely, the scientific attitude tends to the opposite extreme, towards what is called Determinism; that people's actions, thoughts, and morals, are the outcome of more or less blind forces to which they are subjected, and in regard to which, both censure and praise are equally out of place.

It is probable that, as in many controversies, there is a good deal to be said for both points of view, but it is even more probable that approximate truth lies in appreciation of the fact that neither conception is useful without the other. It is probable that in the less fortunately situated strata of society, a theory of economic Determinism would be a sound and accurate explanation for the actions of 98 per cent of the persons to whom it might be applied; that those persons are, in fact, obliged to act and think in accordance with limitations which are imposed upon them by their environment. In short, that their

environment is more powerful in shaping them, than they are in shaping their environment. But this is not true of their more fortunate contemporaries. There are, without a doubt, circumstances in the world, in which the personal conceptions of individuals can have powerful and far-reaching consequences (6) on their immediate and even national or continental environment. It seems reasonable to believe that a Napoleon, a Washington, or a Bismarck have, in effect, changed the course of history, just as it is certain that a James Watt, a George Stephenson, or a Faraday, have altered the centre of gravity of industrial and economic society.

All this is sufficiently obvious, but the important idea to be drawn from it, is that before human ideals (including the Classical and religious ideals) can be brought into any effective relationship with and control by the great mass of the population, that population must be released from the undue pressure of economic forces. It is quite arguable that Napoleon was a curse to Europe, but it is not reasonably arguable that a Napoleon, if living at this time, would be sure to repeat the history of the late eighteenth and early nineteenth centuries. It is reasonably arguable also, that no man could reproduce the career of Napoleon or Bismarck in a country in which the majority of the inhabitants were both economically independent, and politically contented.

A clear understanding of the circumstances in which personality is of importance in effecting environment, and, on the other hand, the (7) circumstances in which it is unreasonable to expect the development of personality which may be considered satisfactory in a pragmatic sense is of the first importance to a balanced consideration of the difficulties and dangers which beset the civilised world at the present time, as well as to the framing of proposals to meet the situation. No one, having devoted any consideration to the subject, can fail to feel exasperation at the exhortations of the sentimentalist forever clamouring after a "change of heart." What effect on his particular difficulties is it going to have, if the miner, abandoning self-interest, goes to his employer and offers to accept half his present wages? Or the mine-owner, faced with a loss, who raises his men's wages? What effect on the dividends of the shopkeeper already in debt to his bank, and in doubt as to the source from which he shall pay his next week's rent, and meet the difference on his overdraft, does it have, if smitten with the sudden desire to apply the golden rule to business, he sells his goods at half their cost to him, because he knows his clientele, who are coalminers, cannot afford more; thus accelerating his progress to the bankruptcy court and the cessation of his activities as a distributor? What is the use of epileptic addresses on the crimi- (8) nality of war, when the enemies' aeroplanes, if not stopped, propose dropping poison gas-bombs on a population which has, probably, not the faintest understanding of the *casus belli*.

On the other hand, no one who has attempted to obtain a hearing for concrete proposals of a social nature from persons who seemed from their position in the world to be favourably situated in respect of their furtherance, can fail to have realised that a difficulty is always met with, in establishing a common point of view; that in fact, it is a condition of executive position-holding, that the point of view shall be in the highest degree, and in the narrowest sense, conservative. It is not an unfair description of the situation to say that those persons who in the main are anxious for changes in the social

structure are powerless to effect them, while persons more favourably situated to bring them about, are rarely anxious to do so. There is not much difference in the "heart" of the two descriptions of person; the difference in behaviour arises from the fact that one is reasonably satisfied with his lot, the other is not.

This is not an abstract problem, it is a practical problem of the first importance. It can be stated in general terms as the problem of bringing together of desire and the means of (9) fulfilment, in relation to the largest possible number of individuals. At every step it is complicated in the practical world by the interjection of so-called moral issues. The courageous bishop who stated that he would rather see England free than sober, may, or may not, have realised that he was postulating in an attractive form, an issue which challenges the idea that a good end can excuse a bad means. The same issue is raised by the endeavour (a successful endeavour), to exhibit "unemployment" as a symptom of industrial breakdown, rather than, as it should be, a sign of economic progress.

Closely interwoven with the classical and moral theory of society, is the theory of rewards and punishments. So familiar is this idea, through education and experience, to most people, that it is only with some difficulty that they are brought to realise that it is an artificial theory and not inherent in the nature of things; that the statement "be good and you will be happy" does not rely for any truth it may possess on any fixed relation between the abstract qualities of goodness and happiness, but upon the fixed relation of cause and effect between certain actions to which the title "goodness" may arbitrarily be applied, and their reactions which we term "happiness." This may appear (10) to be word splitting, but when we realise that the whole of the industrial, legal, and social system of the world rests for its sanctions on this theory of rewards and punishments, it is difficult to deny the importance of an exact comprehension of it.

For instance, the industrial unrest which is disrupting the world at the present time, can be traced without difficulty to an increasing dissatisfaction with the results of the productive and distributing systems. Not only do people want more goods and more leisure, and less regimentation, but they are increasingly convinced that it is not anything inherent in the physical world which prevents them from attaining their desires; yet captains of industry favourably situated for the purpose of estimating the facts, are almost unanimous in demanding a moral basis for the claim put forward. That is to say, those persons whose activities at the present time are chiefly concerned with restricting the output of the economic machine to its lowest limit, while yet asking each individual to produce more, are determined that not even the over-spill of production shall get into the hands of a semi-indigent population, without some equivalent of what is called work, even though the work may still further complicate (11) the problem with which these industrial leaders are concerned. Nor is it fair to say that this attitude is confined to the employing classes. Labour leaders are eloquent on the subject, and with reason. The theory of rewards and punishments is the foundation stone of the Labour leaders' platform, just as it is of the employer whom he claims to oppose. The only difference is in respect of the magnitude and award of the prizes and as to the rules of the competition for them. To any one who will examine the subject carefully and dispassionately it must

be evident that Marxian Socialism is an extension to its logical conclusion, of the theory of modern business. (12)

## CHAPTER II

### INDUSTRY—GOVERNMENT OR SERVICE?

THE practical difference between the theory of rewards and punishments, and the modern scientific conception of cause and effect, can be simply stated. The latter works automatically, and the former does not. If I place my bare finger upon a red-hot bar, so far as science is aware, I shall be burnt, whether I am a saint or a pickpocket. That is the Modernist view. It is not so many hundred years ago since the Classical view held that I should only be burnt if I were a pickpocket or similar malefactor; and ordeal by fire was a ceremony conducted on this theory. It is alleged in select circles even yet, that it is possible to be so saintly, that fire loses its power over the human flesh. But a manufacturer of rolled steel rails, who laid out his factory on the assumption that it would be possible to hire enough saints to handle his white-hot product without apparatus other than saintliness, would undoubtedly experience labour trouble. (14)

That is the point. It is not necessary to have a contempt, or to be lacking in a proper respect, for qualities in human beings which add to the grace, dignity and meaning of human existence, to be quite clear that those qualities are not in themselves at issue in regard to many of the economic and industrial problems which confront the world at this time.

No one would contend in so many words, that the efficiency of the modern factory or farm, considered as a producing mechanism, is seriously handicapped by the lack of moral qualities in those employed. It is a familiar suggestion, brought forward for the consumption of a mystified and uninformed public that, *e.g.* "Ca' Canny" methods, Trade Union rules, and idle workers, are responsible for trade depression, but only sentimentalists and middlemen out of touch with production, pay serious attention to the idea. Such practices may complicate the general question, and their existence does enable the real causes to be masked in a babel of recrimination. At the present time, however, there is not a manufacturer of any consequence who would not feel himself capable of obtaining almost any output required of him, provided that all restrictions of price and cost were removed; or to put the matter as (15) shortly as possible, the difficulties with which the modern employer is confronted are not difficulties of production, they are difficulties in respect to the terms of the contract to which he himself, his employees and the purchasing public are all parties. If, therefore, a majority of persons so placed that they are in a position to impose their will on the remainder of the world, are determined to run the whole producing system of the world as a form of government, it is certainly not yet proven that they cannot do it. But it certainly is already clearly proven that they cannot, at one and the same time, make the producing and distributing systems a vehicle for the government of individuals by the imposition of rewards and punishments, which involves arbitrary restrictions on the distribution of the product, and at the same time be the most efficient and frictionless machine for the production and delivery of the



maximum amount of goods and services with the minimum expenditure of time and labour on the part of those concerned in the operation. That is indisputable.

So far as this matter is ever discussed dispassionately, the argument is apt to proceed in a vicious circle. In the face of the patent and growing difficulty of finding employment in (16) ordinary economic avocations for those who at present cannot live without it, it is claimed that the introduction of any method by which the unemployed could live, *i.e.* be "rewarded" without being employed, besides being immoral, "demoralises them," *i.e.* renders them unsuitable for subsequent employment. Disregarding for the moment the circular nature of this argument, it is curious to notice how generally it is accepted in the face of a good deal of evidence to the contrary, and little evidence in support of it. It is notorious that some of the most successful and useful members of the community during the times of stress between 1914 and 1919, were young men and women of whom nothing but the worst was prophesied during their idle years which immediately preceded the war. It is true, nevertheless, that it is difficult to induce persons who have once enjoyed the expanding influences of increased freedom of initiative, to return to long hours of mechanical drudgery, offering no prospect of improvement or release, and it is not unfair to say that numbers of employers of a somewhat narrow outlook have this fact at the back of their minds when they bewail the demoralising influences which have been brought to bear upon their employees during the last decade. (17)

It is evident then that, before any solution to all these problems of world unrest can be put forward with any certainty of success, it is necessary to come to some understanding on matters of fact.

The primary fact on which to be clear is that we can produce at this moment, goods and services at a rate very considerably greater than the possible rate of consumption of the world, and this production and delivery of goods and services can, under favourable circumstances, be achieved by the employment of not more than 25 per cent of the available labour, working, let us say, seven hours a day. It is also a fact that the introduction of a horse-power-hour of energy into the productive process could, under favourable circumstances, displace at least ten man-hours. It is a fact that the amount of mechanical energy available for productive purposes is only a small fraction of what it could be. It seems, therefore, an unassailable deduction from these facts that for a given programme of production, the amount of man-hours required could be rapidly decreased, or conversely, the programme could be increased with the same man-hours of work, or any desired combination of these two could be arranged. But it is also a fact that, for a given programme, (18) increased production per man-hour means decreased employment. It is also a fact, that never during the past few decades have we been free from an unemployment problem, and it is also a fact that never during the past fifty years has any industrial country been able to buy its own production with the wages, salaries, and dividends available for that purpose, and in consequence, all industrial countries have been forced to find export markets for their goods.

So that we are confronted with what seems to be a definite alternative. We can say, as we are saying up to the present time, that the wages, salaries, and dividends system, with its



corollaries of the employment system, as at present understood, and the moral discipline which is interwoven with all those things, is our prime objective. Having decided that, we have decided that the industrial system with its banks, factories, and transportation systems, exists for a moral end, and does not exist for the reason which induces individuals to co-operate in it, *i.e.* their need for goods; and that moral end can only be achieved through the agency of the system and its prime constituent—employment. And the practical policy to be pursued is one which has been frequently pointed out from diverse sources, and which was the basis, or (19) alleged basis, of the Russian Revolution. It is to make the man-hours necessary for a given programme of production equal to the man-hours of the whole population of the world, so that every one capable of any sort of work should, by some powerful organisation, be set working for eight or any other suitable number of hours a day. To achieve this end, the use of labour-saving machinery should be discouraged, all scientific effort should be removed from industry (as was at first done in Russia), and, in particular, modern tools, processes, and the application to industry of solar energy in its various forms should be vigorously suppressed. Failing an alternative, one should dig holes and fill them up again. All this is the logical outcome of the attitude, not merely of the orthodox employer (although he may not realise it), but of the orthodox socialist, and it ought to be clearly recognised. The world has not yet passed a deliberate verdict on the matter, and it ought to have the case and the evidence; and in the meantime the atmosphere of war and economic catastrophe in which the world is enveloped, should be accepted as a desirable means towards a high moral objective.

The other alternative, while recognising the necessity for discipline in the world, does not (20) concern itself with that necessity in considering the modern productive process. It surveys the facts, finds an inherent incompatibility between the substitution of solar energy for human energy, on the one hand, and the retention of a financial and industrial system based on the assumption that work is the only claim to goods, on the other hand, and takes as its objective the delivery of goods, making the objective always subordinate to human individuality. It is not concerned with abstractions, such as justice. It has no comment to make on the fact that one man does twice as much work as another, except to enquire whether he likes doing it; or that one man wants twice as much goods as another, except to investigate the difficulties, if any, in giving them to him. It observes, or thinks it observes, that it has sufficient data to predict not only that such a policy would work, but that it is the only policy in sight which would work.

The vast majority of discussions which take place in regard to industrial problems are prevented from arriving at any conclusion from the fact that the disputants do not realise the premises on which their arguments are based, and in many cases use words (and "justice" is an example of such words) which beg the whole (21) question at issue. It is not too much to say that one of the root ideas through which Christianity comes into conflict with the conceptions of the Old Testament and the ideals of the pre-Christian era, is in respect of this dethronement of abstractionism. That is the issue which is posed by the Doctrine of the Incarnation. (22)

## CHAPTER III

### THE RELATION OF THE GROUP TO THE INDIVIDUAL

WE live so close to a world shot through with the theory of rewards and punishments that the relation between the system and its results is apt to escape us. We are told for instance, with all the emphasis which can be given to the assertion by the prestige of names much in the public eye, that our present distress arises because we are a poor nation as the result of a great war. The idea inherent in this is that war is wicked, poverty is painful, and wicked people who went to war ought to endure pain, and, therefore, we ought to be poor. And because of this logical morality the idea is accepted almost unquestioningly by millions of people who only have to use their eyes to see the patent absurdity of it. Is there a manufacturer in this country, or for that matter in any other, who is not clamouring to turn out more goods if someone will give him orders for them? Is there a farmer who is complaining that his land and his stock are unable (24) to cope with the demands for agricultural produce which pour in upon him? If so, an explanation as to why nearly three million acres of arable land have gone back to pasture in the last twelve years, would be interesting.

On the other hand, it is patent that, in spite of this enormous actual and potential reservoir of the goods for which mankind has a use, a large proportion of the population is unable to get at them. What is it, then, which stands in between this enormous reservoir of supply and the increasing clamour of the multitudes, able to voice, but unable to satisfy their demand? The answer is so short as to be almost banal. It is Money. And as we shall see, the position into which money and the methods by which it is controlled and manipulated have brought the world, arises, not from any defect or vice inseparable from money (which is probably one of the most marvellous and perfect agencies for enabling co-operation, that the world has ever conceived), but because of the subordination of this powerful tool to the objective of what it is not unfair to call a hidden government.

Now it is impossible to conceive (in spite of a good deal of cynicism to the contrary) of a government which has not a policy, although that policy may be far from apparent. The (25) conception of government postulates that certain lines of action and conduct shall be inhibited, and that the persons governed shall be allowed to proceed only in some predetermined direction. In other words, government is limitation, and from the nature of the limitations it is possible to determine the policy of the organisation imposing the limitations. For instance, while it is true enough to say that extensive military preparations do not necessarily mean war, the qualification implied in this statement is that the main threat which such preparations constitute will be sufficient to achieve the desired result without the actual use of military force. The military preparations impose a limit on action in certain directions, and then become indications, and often valuable indications, of the policy of nations.

Similarly, if we consider dispassionately the situation to which reference has just been made (a world which is either actually or potentially overflowing with material riches, and, at the same time, a population which is prevented from obtaining them by a set of

rules supported by every possible device that legal organisation can devise), we can say that we are in the presence of an effective and active government, irrespective of the source of that government; and (26) that government must have a policy. For our immediate purpose, it is nearly irrelevant whether that policy is a conscious policy, in the sense of having been put into a clear and logical form by some body of men, however small, or whether it is unconscious in the sense that it is the outcome of something we call human nature. The important matter is to get a clear conception of what the policy is as a first step to supporting or opposing it, if it is agreed that we have any measure of self-government, or ought to have any.

One of the first facts to be observed as part of the social ideal which leans for its sanctions on rewards and punishments, is the elevation of the group ideal and the minimising of individuality, *i.e.* the treatment of individuality as subordinate to, *e.g.* nationality. The manifestations of this idea are almost endless. We have the national idea, the class or international idea, the identification of the individual with the race, the school, the regiment, the profession, and so forth. There is probably no more subtle and elusive subject than the consideration of the exact relation of the group in all these and countless other forms, to the individuals who compose the groups. But as far as it is possible to sum the matter up, the general problem seems to be (27) involved in a decision as to whether the individual should be sacrificed to the group or whether the fruits of group activity should be always at the disposal of the individual. If we consider this problem in connection with the industrial and economic situation, it is quite incontestable that every condition tending to subordinate the individual to the group is, at the moment, fostered. Institutions which would appear to have nothing in common and to be, in fact, violently opposed, can be seen on closer investigation to have this idea in common, and to that extent to have no fundamental antagonism. Pre-war Germany was always exhibited as being reactionary, feudal, and militaristic to an extent unequalled by any other great power. Post-war Russia is supposed by large masses of discontented workers, to be the antithesis of all this. But the similarity of the two is daily becoming more apparent and it is notorious that the leaders of pre-war Germany are flocking to post-war Russia in increasing numbers, in the lively hope of the fulfilment of the ideals which were frustrated by the Great War. The latest pronouncements on industrial affairs by Russian statesmen are indistinguishable from those of American, German, or British bankers (which statement is not intended as undiluted praise). (28) It is significant that the arguments voiced from all of these quarters are invariably appeals to mob psychology – "Europe must be saved," "Workers of the World unite," etc. The appeal is away from the conscious-reasoning individual, to the unconscious herd instinct. And the "interests" to be saved, require mobs, not individuals.

No consideration of this subject would be complete without recognising the bearing upon it of what is known as the Jewish Question; a question rendered doubly difficult by the conspiracy of silence which surrounds it. At the moment it can only be pointed out that the theory of rewards and punishments is Mosaic in origin; that finance and law derive their main inspiration from the same source, and that countries such as prewar Germany and postwar Russia, which exhibit the logical consequences of unchecked collectivism, have done so under the direct influence of Jewish leaders. Of the Jews themselves, it may

be said that they exhibit the race-consciousness idea to an extent unapproached elsewhere, and it is fair to say that their success in many walks of life is primarily due to their adaptation to an environment which has been moulded in conformity with their own ideal. That is as far as it seems (29) useful to go, and there may be a great deal to be said on the other side. It has not yet, I think, been said in such a way as to dispose of the suggestion, which need not necessarily be an offensive suggestion, that the Jews are the protagonists of collectivism in all its forms, whether it is camouflaged under the name of Socialism, Fabianism, or "big business," and that the opponents of collectivism must look to the Jews for an answer to the indictment of the theory itself. It should in any case be emphasised that it is the Jews as a group, and not as individuals, who are on trial, and that the remedy, if one is required, is to break up the group activity.

The shifting of emphasis from the individual to the group, which is involved in collectivism, logically involves a shifting of responsibility for action. This can be made, it would appear, an interesting test of the validity of the theory. For instance, the individual killing of one man by another we term murder. But collective and wholesale killing, we dignify by the name of war, and we specifically absolve the individual from the consequences of any acts which are committed under the orders of a superior officer. This appears to work admirably so long as the results of the action do not take place on a plane on which they can be observed; but (30) immediately they do, the theory obviously breaks down. There may be, *ex-hypothesi*, no moral guilt attributable to the individual who goes to war; but the effect of intercepting the line of flight of a high-speed bullet will be found to be exactly the same whether it is fired by a national or a private opponent. Nations are alleged to have waged the first world war, but the casualties both of life and property fell upon individuals. There is no such thing as an effective national responsibility—it is a pure abstraction, under cover of which, oppression and tyranny to individuals, which would not be tolerated if inflicted by a personal ruler, escape effective criticism.

We do not know what is the automatic reaction consequent on the killing of one individual by another, as distinct from the non-automatic and artificial reaction involved in the trial and punishment of a murderer in a court of law. But we do know that over every plane of action with which we are acquainted, action and reaction are equal, opposite, and wholly automatic. Consequently, there is nothing to indicate that the automatic consequences of a given action will exhibit any difference if committed under the orders of a superior officer, or not. Further, it may be observed that non- (31) automatic "punishment" really constitutes a separate group of actions and reactions.

If we throw a stone into a still pool of water, the ripples which result are not eliminated by throwing in a second stone, although they may be masked, and to the extent that legal punishments represent, not the ripples from the first stone, but the casting of the second, it will be seen that a complicated situation is inevitable. (32)

## CHAPTER IV

### FREEDOM OF ASSOCIATION

THE consequences of the exaltation of the group over the individual have often been pointed out in various forms of words, as well as having been demonstrated sufficiently in such countries as Russia and Germany, but it would be unduly optimistic to say that they are generally recognised or understood. And the reason for this is not far to seek. It is possible so to twist the meaning of words, that policies which result in conditions which are progressively obnoxious to the majority of persons affected by them, can yet obtain a considerable amount of support, by an appeal to high-sounding words such as democracy, justice, and equality. The emotion to which appeal is made, is that which was invoked to justify witch-burning. The point which is so hard to make clear to the masses affected, is that a group is an entity which has a life of its own; it is the body corporate of an "interest," *not* of the myriad interests of the (34) human units composing it, and the surrender of volition to a group means, quite inevitably, a surrender of the very things for which in most instances the individual is struggling. Yet this body cannot be kicked, nor can the group-soul be saved, save in the persons of the individuals who lend themselves to its purposes. Even the leaders of a group are only leaders so long as they serve the interests of the group, and to that extent are as much slaves of it, as the humblest member of the rank and file; a fact which it is well to bear in mind when attributing to captains of industry qualities which belong rather to their office than to the individuals themselves. It is, of course, true that "head" or supervising slaves are generally strong supporters of slavery as an institution.

And yet it is patent that the modern world can only be operated through a liberal use of the group idea. If we are to have great co-operative undertakings, by which alone, so far as we are aware, mankind can be freed from the necessity of devoting the major portion of his day to the acquisition of sufficient food, clothing, and shelter from the weather, there must be a submission by those concerned in such enterprises to a given policy, for instance, of production. This is, of course, common sense, and a (35) matter of common observation, and to the extent that there is a legitimate relation between the group interest thus formed, and the personal interests, is sound in every way. But there are two qualifications which can be made in respect of this submission. The first of these is, in plain English, bound up with the length of time per day or per year during which the submission is necessary, and it has already been observed that the free play of modern science and organisation would, under certain circumstances, tend to reduce this to a small minimum within a short time. The second qualification is involved in the phrase "freedom of association."

At the present time such a thing can hardly be said to exist outside the realms of sport. If I join a cricket club and find that I do not like the game, or the methods governing the conduct of the club itself, I am usually free to resign without further penalty than attaches to the loss of association, and the consequent facilities for playing cricket. But if I enter a profession or business and find that I do not like it, or the methods under which it is conducted, it is true that I am free to resign, but the penalty attached to resignation greatly

exceeds the mere deprivation of association and the facilities to exercise the profession or business—it includes (36) economic catastrophe for myself and my family. In other words, I come up against the doctrine of rewards and punishments in an acute form, since it is absurd to suggest that if I resign, the necessary work previously done by me will remain undone. It will not, if it is tolerable work and done under tolerable conditions. An average consequence is that I do not either resign from, or criticise actively, my associations of this nature. In passing, it may be noticed that only recently has the absurdity of the "right to strike," as exercised under current financial methods, dawned upon the Labour Party and its constituents. Where one party to a controversy can only obtain the means of subsistence by "working" while the other party can continue, if not indefinitely, for a long time, by drawing cheques on institutions which, if necessary, can create their own deposits, the right to refrain from working merely amounts to a right to commit suicide. The decline of the practice of Hara-Kiri in Japan, as a means of inflicting injury on an adversary, would tend to show that suicide is losing its terrors for the onlooker.

There is probably more nonsense spoken and written around the words freedom and liberty, than in regard to any other two words in the (37) English language. As a result of this, we have been treated to a dissertation by Signor Mussolini, suggesting that liberty is an outworn and discredited word. Signor Mussolini is mistaken. Liberty will come into its own, although it is quite possible that two groups which appear to be enemies of it and have much in common, including quite possibly, a similar origin, *i.e.* Bolshevism and Fascism, may be necessary to clear the minds of the public of much of the misconception which surrounds the idea, by demonstrating what it is not.

Liberty is really a simple thing, although difficult to come by. It consists in freedom to choose or refuse one thing at a time. It is undeniable that every action has consequences. But by no means all the consequences of actions, as committed in everyday life, are necessary consequences. If I drive a motor-car at forty miles an hour on an open road, it is an artificial consequence if I am fined for exceeding the speed limit, though a natural consequence that I arrive at my destination quicker than if I drove at twenty miles an hour. If I pick up a red-hot bar, it is not necessary that I should be burnt. I can wear asbestos gloves. It is the hedging round of actions with conditions or "laws" of various descriptions so as to produce (38) an artificial or undesired train of consequences, which constitutes an infringement of liberty, and in a large number of cases, just as it is the Law which makes the Crime, it is stupidity which conceives the law.

If I say that, being a golfer, I wish to play golf all day, seven days a week, I am in effect demanding freedom from certain limitations which are normally imposed on me, such as the earning of a living, not to mention other social duties. Now the abstract criticism which is nearly always urged in connection with a hypothetical case of this sort is, that if everyone played golf all day seven days a week, the world would come to a standstill for want of the necessaries of life. But this line of approach is both fallacious and useless. The useful line of approach is to consider how many people if free to do it, want to do this thing to this extent, and what effect that number would have on the production programme. And the possibility of an increase in the real liberty of the subject depends



not (as is so unceasingly proclaimed by the upholders of things as they are) in a continual compromise between individual rights, but in a continual attempt to remove limitations which are non-automatic, that is to say, do not proceed from what we call the laws of (39) nature. It must be confessed that a consideration of our machinery for putting regulations on the statute book, does not lead to any great optimism at the moment in this regard.

It is in the method of attack on its problems, that modern inductive science offers such a striking lesson to politics and legislation; in recognising the existence of certain forces in the universe which have real validity, and that in consequence its triumphs must be achieved by ascertaining the nature of these forces and, taking them as they are, employing and combining them to achieve the desired result. But the whole of our modern civilisation is hedged in, distorted, and confused by a number of limitations which have no validity other than that which we choose to give them. Let anyone who may doubt this statement, and its profound significance, take up a daily paper and consider the suggestions of correspondents and leader-writers in regard to any situation which may at the moment be engaging attention. Has there been a motor accident? Then a new law must be passed imposing fresh restrictions on the use of motor-cars. Has there been a strike in the East End? Laws should be passed to make striking illegal. The joint phenomena of several millions of unemployed and under-employed, (40) capable of road building, and willing to work, and the fact that 95 per cent of the motorcar accidents which occur are traceable to avoidable congestion of traffic and out-of-date roads, is apt to be the very last thing which is pointed out in relation to the first-mentioned problem; and the fact that the actual amount of goods which would be bought by the extra money necessary to keep the East End strikers at work, is trivial in comparison with the quantity available, is never even mentioned in regard to the second.

It should not be, but probably is, necessary, at this point, to observe that it would be fantastic and impracticable to destroy the whole fabric of legalism at one blow. There is a great deal of work to be done in deciding the nature and relation of physical and psychological limitations before anything so drastic is possible. But it is possible to recognise and to work towards the objective; and, moreover, it is urgent. Especially in America, legalism is becoming an obsession. Yet non-automatic laws rest upon a very insecure foundation. When we see, as we do, statements in leading European and American journals to the effect that civilisation is tottering, it may be inferred without much difficulty that it is this fabric of non-automatic rules (41) and regulations which seems to the writers to be in danger. The laws which govern the combination of oxygen and hydrogen, or the rate of acceleration of a stone dropped over a cliff, are never seriously endangered by any of the events to which so much importance is attached in Wall Street and Lombard Street.

This being so, the picture presented to the mind of any thoughtful observer must be that of a bridge which has been reared through the agency of scaffolding and false-work. Its completion has been delayed and its lines obscured by the failure to remove the structure which has enabled it to be built, but which is no longer necessary. The people of the world are clamouring for admission and many of them are supported by the false-work. The problem is to get the false-work away without precipitating into a catastrophe the



swarming multitudes who regard it as the real structure. Unfortunately, a number of the foremen working on the bridge seem themselves unable or unwilling to distinguish the structure from the scaffolding. (42)

## CHAPTER V

### SABOTAGE AND THE CULTURAL HERITAGE

A CONCEPTION which is closely connected with the theory of rewards and punishments, is that of "Value." In effect, value may be defined, to fit the orthodox conception of it, as that quality which gives to anything maximum exchangeability under present conditions. Rewards and Punishments, Justice, *i.e.* the assessments of desserts, and "Value," *i.e.* the basis on which desserts are assessed, may be said to be the corner stones of the Semitic structure of society.

Now, so far as this attribute called "value" can be said to have any basis in the nature of things, it consists in that quality which renders a given object serviceable in the attainment of a given end. But it will be found on consideration that this definition is eventually antagonistic to the more orthodox description of the quality previously given. For instance, if it is necessary for me to cross a large river, a boat would seem to be my immediate requirement. Its utilitarian value to me consists in its ability to transport me across the river with a mini (44) mum of inconvenience and a maximum of speed. But the generally accepted opinion of its value would be directly proportional to my ability or the ability of someone else, to submit to penalisation financially for the use of the boat, and this again would be directly proportional to the urgency of my need and would be enhanced by the absence of other boats. It should be particularly noticed that this kind of value is not inherent— it is one remove away from the simple usefulness of the boat.

As a result of this conflict of ideas and consequently of objectives, the value of anything which has a use is, according to the popular idea, enhanced by its scarcity, and it is quite fair and unimpeachably logical that a world which seeks after "values" should proceed to create them through the agency of scarcity.

It is not only logical, but what is more important, it is what happens. The process of creating "Values" by creating a demand which is in excess of the supply, is called advertisement, and by restricting a supply so that it is always less than the demand, is technically known as Sabotage. Advertisement has its exposition on every hoarding; Sabotage is its commercial complement, and is one of the most widespread features of our existing civilisation, and yet one (45) which on the whole passes unnoticed, in anything like its true proportions, by the general public. It is not confined to any one class of business or profession, although its cruder manifestations, as might be expected, are found amongst the less fortunately placed masses of the people. It is, of course, the only theory, if it can be so called, underlying the strike, the assumption being that if the whole of the available labour can be taken off the market the financial value of it immediately increases. The higher manifestations of it are slightly more subtle but identical in

principle. The modern objective of big business is to obtain the maximum amount of money for the minimum amount of goods. Or to put it more accurately, to obtain a maximum total price for a minimum total cost. As a result of this, business acumen is measured by the ability to create price rings in indispensable goods, while decreasing the purchasing power or "costs," distributed during their manufacture and storage.

The theory underlying both advertisement and Sabotage, together with their results, has been treated at some length elsewhere.\* An important aspect of the latter, however, which will perhaps bear explanation at this time, is concerned with the financial policy of nations.

\* "Economic Democracy." (46)

When we say that the objective of modern business is to obtain a maximum total price for a minimum total cost, we are implying in the case of a given undertaking that the receipts shall be at least equal to the disbursements, and in addition that the surplus of receipts shall be as large as possible. This is the same thing as saying that all the costs of an article shall be included in the price of it to the public. In the case of a nation, as at present situated, all the alleged services which it renders to the public composing it are supposed to be paid for eventually by taxes, and the objective of every orthodox government is to balance its budget, and to repay its "borrowings." That is to say, to make its receipts in taxation equal or exceed its expenditure, and in addition to have as large a surplus as possible with which to pay the interest on loans created by the financial hierarchy and to "sustain the nation's credit" in view of future loans.

When, later, we come to examine the mechanism of money and the sources from which it originates, it will be seen that this is not in any fundamental sense necessary, but for the moment it is only requisite to point out that the result is to create a shortage of money in the hands of the general public, and in consequence (47) to enhance its scarcity value. If we can conceive, what is in fact the case under the existing financial system, that money is a commodity in exactly the same sense as is tea or sugar, and that there is a powerful, if unobtrusive business ring which deals in money as a commodity, it will be readily understood that the balancing of budgets and the repayment of loans by taxation is a prime interest of those interested in the commodity. Money dealers are normally deflationists.

As no government can carry on for a month without money, it is not necessary to labour the point that the visible government of a country is obliged to take its orders and to shape its policy, and particularly its financial policy, in accordance with the instructions of the dealers in this indispensable implement, so long as they hold a practical monopoly of it.

Just as the artificial theory of rewards and punishments is a distorted reflection of the automatic process of cause and effect, and the orthodox idea of value has possibly its root in something which may be described as suitability, so, that questionable abstraction to which we refer under the name of justice may have a groundwork in the nature of things.

One instance of this, and an instance having (48) immense importance at the present time, is contained in the theory of "cultural heritage."

The early Victorian political economists agreed in ascribing all "values" to three essentials: land, labour, and capital. Without staying at the moment to discuss the unsatisfactory meanings which were frequently attached to these words, we may notice that, the three together being defined as the source of all wealth, the possession of one or the other of them seemed logically defensible as a claim, and collectively, the only valid claim to the wealth produced. But it is rapidly receiving recognition that, while there might be a rough truth in this argument during the centuries prior to the industrial revolution consequent on the inventive period following the Renaissance, and culminating in the steam engine, the spinning-jenny, and so forth, there is now a fourth factor in wealth production, the multiplying power of which far exceeds that of the other three, which may be expressed in the words of Mr. Thorstein Veblen\* (although he does not appear to have grasped its full implication) as the "progress of the industrial arts." Quite clearly, no one person can be said to have a monopoly share in this; it is the legacy of

\* "The Engineers and the Price System." (49)

countless numbers of men and women, many of whose names are forgotten and the majority of whom are dead. And since it is a cultural legacy, it seems difficult to deny that the general community, as a whole, and not by any qualification of land, labour, or capital, are the proper legatees. But if the ownership of wealth produced vests in the owners of the factors contributed to its production, and the owners of the legacy of the industrial arts are the general community, it seems equally difficult to deny that the chief owners, and rightful beneficiaries of the modern productive system, can be shown to be the individuals composing the community, as such.

Now it is indisputable that a solution of the more immediately pressing problems with which civilisation is confronted at the present time, does in fact turn on the removal of the limitations to the distribution of wealth (which limitations also react on its production). So that in this case, and no doubt in many others, it is possible to make out a theoretical case for a line of action which is also justifiable by expediency. But the great danger of placing too much reliance on the deductive method, is that the whole of its conclusions are rendered misleading and dangerous if an essential factor is omitted from the premises. (50)

## CHAPTER VI

### THE THEORY OF THE SUPREME STATE

IN dealing with the subject of Values in its human aspect, many points of practical importance arise. One of these can probably best be seen in correct perspective, by an examination of common human motives. It is involved in the complaint against the

modern cooperative industrial system, that its routine operations are soul killing, monotonous, and without interest, and that a remedy can be found, and can only be found in a return to handicraft.

A good deal of the criticism which has proceeded from "Intellectuals," concerned, and rightly concerned, with the desperate defects of contemporary society, has been directed to stress this point. It is an aspect of modern industrialism which lends itself to picturesque treatment and sentimentalism, and probably the exploitation of it offers more emotional reward to the would-be reformer, and obtains (52) wider acquiescence from his public, than is the case with the more mechanical aspects of the same problem.

While it may be necessary, for these and other reasons, to suspect over-emphasis, there are solid grounds for the complaint, and it is well worth examination.

In so doing, we may employ a conception which will be familiar to students of Eastern Philosophy, which regards the world, or society, as a macrocosm or "Great Man," reflecting on a gigantic scale the microcosm or individual man. In this conception every attribute of the human individual is repeated on a mighty scale in the "World Man," and, to this World Man, the "Prince of this World," the human individual bears very much the same relation that the blood corpuscle of the individual does to the human body. It is no part of the purpose of this book to offer any opinion as to the extent to which this conception has any basis in absolute truth, but it is undeniable that it does form a convenient basis in estimating the probable success of any suggested set of human relationships.

Now the interest of the blood corpuscle, if it can be imagined to have an interest, is only concerned with the body of which it is a (53) constituent in so far as the continued existence of that body tends towards its own progressive evolution, and the interest of the human individual in society is similar. Any other conception, besides being pharisaical and sentimental, is an invitation to all those influences which stand ready to exploit the individual under cover of such phrases as Public Interest and National Duty. But it is equally true, so far as we can see, that the expansion of the human unit is dependent upon the progress of society. That is to say, upon environment. Virtue *may* flourish in the gutter, but if Virtue can *only* flourish in the gutter, as some people would have us believe, then it is time that the nature of Virtue received severe scrutiny. If these relationships be admitted, at any rate for the purpose of a working hypothesis, it seems to follow that the human individual has two aspects, one of which is functional, and specialised, and is only concerned with the health and well-being of the "Great Man," *i.e.* Society, of which he forms a part. Out of this aspect, he benefits indirectly, not directly. This is exactly the position of the individual in regard to the division of labour which forms the basis of cooperative industrialism. To proceed with our chosen analogy, the individual can, in (54) the nature of things, only form a constituent of one function of the Great Man, at any one instant of time. There is nothing to prevent his forming a constituent of another function at a subsequent period of time. There seems to be nothing inherently absurd in a man being a brick-layer in the morning, and a Company Director in the afternoon, and, in fact, there are good grounds for imagining that something of this sort may come to pass. But

the point it is desired to stress at the present moment, is that, in this aspect, the individual is not serving his individuality, but ought to be serving his environment in the best way possible, and direct artistic gratification from work performed in this way is neither specifically to be looked for, nor is it the immediate object of the work. It may even be the cause of a narrow outlook.

Whether society as a whole can be imagined to have an individuality of its own or not, it may be repeated that Society's individuality is not a prime interest of the human individual. It is an auxiliary interest, and may even be a perversive interest. It is most probably true that there can be no divergence between true Public Interest and any true private interest; if it were so, words would have lost their meaning; but it is certain that no crushing of individuality by (55) Society can ever conduce to the well-being of other individuals. The human individual, under the same conception, contains either in a latent or active form, every function and attribute, although on a minute scale, which can be imagined to reside in a world society. Consequently, although work for its own sake, or employment as an end and not a means, is objectionable when it is purely functional, or to put the matter in everyday terms, since it is plainly desirable to cut down the amount of time necessary to improve the general environment at whatever rate is deemed desirable, work for its own sake may quite easily be essential to the well-being of the individual. The difference is subtle, but it is vital. To knit a jumper or to dig and plough because of the satisfaction of knitting a jumper or of creating a garden or a wheatfield, or even because it is healthy, is one thing, and it may happen as a by-product that the jumper or the wheatfield will be superlatively well done; to knit jumpers, or to dig and plough ten hours a day, six days a week, fifty-two weeks a year, because unless this is done the mere necessities of existence cannot be obtained, is quite another. To dress neatly, comfortably, and suitably, taking half an hour over the process, seems reasonable; to spend the (56) day in dressing is monomania—our forbears called it "possession." When we do things under the compulsion of Society, we are blood-corpuscles, not individuals; we are doing them in the interests of *Society* primarily, and only secondarily, if at all, in the interests of our own individuality. As society is at present constituted, it is quite definitely to its advantage, and tends to the perpetuation of the present form of Society, that Lancashire mill operatives should work the maximum number of hours at a very dull occupation, with the minimum of change of work, and if individuals had no interests as such, that is to say, if they were Robots, contemporary society would probably work very well, and no difficulties would arise. But Lancashire mill operatives are developing individualities, and their interests are clearly not the same as those of Society as at present constructed. In one way or another the various units which compose the Society are proclaiming unmistakably their objection to a purely passive role, and the conflict which we see proceeding all over the world at the present time will clearly determine whether Society has power to remould the individual so that he becomes purely a passive agent in respect of purposes which he cannot understand, and has (57) no means of estimating, or, on the other hand, whether the individual by non-co-operation or otherwise, can break up or remould Society. For my own part I have small doubt as to the outcome. (58)

## CHAPTER VII

### THE NATURE OF MONEY

OUT of the two conceptions of abstract justice and abstract value, arises an important misdirection of thought in connection with a subject with which we shall become more and more concerned as we proceed; the subject of Money. There are few people who would claim that the money systems of the world are perfect, and the number of such persons is decreasing daily. But when asked to define the various defects in the money system, it is remarkable to notice with what monotonous regularity these ideas of "justice" and "value" are paraded. It is claimed that money is defective because it is not an accurate measure of value, or that it results in an unjust "reward" for labour, but when such critics are asked to suggest a method by which the relative value of a sunset, and say, the Venus di Milo might be assessed, on the one hand, or, on the other hand, what is the "just" return for a given amount or variety of labour, their answers are not usually helpful (60) from a practical point of view. Reams of paper and many valuable years have been expended in endeavouring to define and standardise this thing called "Value," and with it, the methods of relating goods and services to the standard when obtained. The line of thought which is usually followed, is something after this fashion.

"Money is a standard or measure of value. The first requisite of a standard or measure is that it shall be invariable. The money system is not giving satisfaction, money is not invariable, therefore, the problem is to standardise the unit of money." As a consequence of this line of argument, a dazed world is confronted with proposals for compensated dollars varying from time to time in the amount of gold they contain in accordance with the price index, or even with card money out of which holes are punched to represent its adjustment to the physical realities of economics. Nor is the misdirection of thought confined to professional economists. Almost the first idea which seems to present itself to physical scientists whose attention is directed to this problem, is in the nature of a search for some adaptation to finance of the centimetre-gramme-second system of units. Yet perhaps the most important fundamental idea which can be conveyed at (61) this time, in regard to the money problem—an idea on the validity of which certainly stands or falls, anything I have to say on the subject—is *that it is not a problem of value-measurement. The proper function of a money system is to furnish the information necessary to direct the production and distribution of goods and services.* It is, or should be, an "order" system, not a "reward" system. It is essentially a mechanism of administration, subservient to policy, and it is because it is superior to all other mechanisms of administration, that the money control of the world is so immensely important.

The analogy of the "Limited" railway ticket is for all practical purposes exact, a railway ticket being a limited form of money. The fact that a railway ticket has money-value attached to it is subsidiary and irrelevant to its main function, which is to distribute transportation. A demand for a railway ticket furnishes to the railway management a perfect indication (subject, at present, to financial limitations) of the transportation which is required. It enables the programme of transportation to be drawn up, and the availability of a ticket issued in relation to this programme enables the railway traveller to



make his plans in the knowledge, that the transportation that he desires will probably be (62) forthcoming. It is every whit as sensible to argue that because there may only happen to be one hundred tickets from London to Edinburgh in existence, that, therefore, no more than one hundred passengers may travel, as it is to argue that because the units of money happen at the moment to be insufficient (whether they are "invariable" or not), therefore, desirable things cannot be done, irrespective of the presence of the men and the materials necessary to do them. The argument only assumes validity if a deficiency of tickets is a reflection of a real deficiency in transport, and not *vice versa*.

The measurement of productive capacity takes place, or should take place, in regions other than those occupied by the ticket office, or its financial equivalent, the bank, and the proper business of the ticket department and the bank is to facilitate the distribution of the product in accordance with the desires of the public and to transmit the indication of those desires to those operating the industrial organisation, to whom is committed the task of meeting them. They have no valid right to any voice in deciding either the qualifications of travellers, or the conditions under which they travel.

It will no doubt be observed that there is a close connection between the point of view (63) which it is here suggested is vital to a solution, and the contrast indicated in the opening chapter of this book, between the Classical and the Modern system of education. Just so long as a rigid abstraction is made the test to which physical facts must conform (and any theory of money which pretends to measure values comes under this description), just so long must there be friction and abrasion between the theory and the facts (and facts are much harder than theories). Dissatisfaction and disappointment in the world as a result, can be predicted with certainty. In other words, Utopia is - Utopia. It has been said before, but it will bear repetition. The picture and specification of the world people desire at the present time, is, like the kingdom of heaven, within each one of them, and their desires in general are not more likely to be satisfied by a card-indexed Paradise after the heart of M. Stalin, than by an Imperialistic millennium ruled by Mr. Kipling's "Aerial Board of Control." It is quite arguable that material wealth, with the emancipation it can carry with it, will not bring happiness, but it is not arguable that the vast majority of people will take this truth, if it is truth, on hearsay. It is as probable that a starving man will listen patiently to a lecture on gluttony. (64)

## CHAPTER VIII

### THE COMING OF POWER

IT has perhaps by now become possible to obtain some sort of mental picture of the policy controlling the world in which we live, and having done this it should be easier to make some comparison of this policy with one to which more general acquiescence might be obtained. It must be recognised that the great elementary human emotions, desire and fear, are employed with great skill by the Invisible Government, in the guise of rewards and punishments, to obtain certain results. These results, it would appear, might not have been obtained, had not a large majority of the world's population been cajoled or



forced into doing a great deal of work which momentary necessity did not, in point of fact, render inevitable. In this way have been produced enormous reserves of real capital, by which is meant plant, buildings, tools, and still more important, the knowledge, organisation, and processes necessary to their application; and only by this building up (66) of capital, it would seem, has further progress become possible. In the earlier centuries of the present era, even war seems to have been justifiable in a broad sense, both as an elimination test, and as a stimulant to invention and initiative. It is also difficult to conceive of any plan by which the possible advantage of the individual could have been advanced so rapidly, as by his temporary submergence in large groups, to which we give the name of nations or races. All this may be admitted as being applicable to within comparatively recent years, let us say to the middle of the last century, just as we may often be prepared to admit that a statesman who, under post-war conditions has become a hindrance to progress, rendered vital service under circumstances suitable to his talents.

But because a thing was once sound and desirable, it is by no means necessary to admit that it is permanently advantageous. Largely because of the progress in the industrial arts, but not less as the result of a general spread of education, a system of world organisation which is based on the deception of the general public, the practical necessity or expediency which might perhaps be excused in the past, has now become both undesirable and actively and practically vicious. (67)

The reaction of a threat on the highly-strung human product of modern civilisation is dissimilar from that which was obtained a few hundred years ago. War has become definitely dysgenic. So far from killing off the weakling and the slow-minded, it has a strong tendency to remove these, together with the shirker, to a point distant from the field of conflict, and in many cases to place them in a position of subsequent advantage both financially and otherwise, as compared with bolder and more enterprising compatriots. And human intelligence has progressed to the extent that a method of stimulating industry similar to the holding of a carrot continuously in front of a donkey's nose to produce progress, has ceased to function effectively. Even an ass has a rudimentary sense of proportion between miles walked and carrots achieved. If the principal objective to which humanity might reasonably be directed, were the same as that existing five hundred years ago, it is nevertheless clear from the general unrest, that the methods by which general co-operation can be obtained require considerable and early modification. But this objective is not the same.

It seems indisputable that the maintenance of a unit of human life involves a process of meta- (68) bolism, or, in other words, the breaking down and building up of form through the application of energy. When men maintained themselves by manual labour, this process was very nearly a closed cycle, that is to say, it took a large portion of the energy which mankind acquired through food, to maintain life. There is inductive support for this line of thought in the consideration of such civilisations as those of India and Persia, which were at a substantially similar stage less than one hundred years ago, to that which they had reached three or more thousand years ago. Even to-day, there are thousands of square miles in the Middle and Far East, in which both the habits of thought, and manner

of life, are indistinguishable from those recorded in the earliest literature with which we are acquainted. The cycle was, in all probability, not quite closed, or under the law of the conservation of energy, which can be assumed to apply in some form, no progress would have been possible; and it is reasonable to argue that the slight increment of energy which permitted the upward spiral of evolution, was derived by direct absorption of the energy of the sun's rays.

But the inductive or experimental method of attack on the problems of life which may be (69) said to be the outstanding feature of the Renaissance in the West, resulted in a profound disturbance of the premises of human existence. From the moment that the first crude steam-engine pumped the first gallon of water, if not before, the metabolic cycle contained a factor, a new method of entrance for solar energy, which was bound to result in a much steeper spiral of ascent. And at the present time it seems reasonable to believe that we have reached a point at which we are within sight of a considerable release of human energy from the mechanical drudgery of existence by toil.

The outcome of this must surely be obvious. So far from the mere sustenance of life through the production of food, clothing, and shelter from the elements being, with reason, the prime objective of human endeavour, it should now be possible to relegate it to the position of a semi-automatic process. Biologists tell us that the earliest known forms of life devoted practically the whole of their attention to the business of breathing. Breathing is not less necessary now than it was then, but only persons suffering from some lamentable disease pay much attention to the process.

It is not relevant to the purposes of this book to indicate the new objective to which human (70) energy will in all probability redirect itself. It is merely intended to suggest the possibility of the re-orientation, and the methods by which at the moment it is being hindered, in order that those hindrances may be removed.

Now it is quite probable that a recognition of the truth of the foregoing ideas, although not formulated, underlies a great deal of the opposition to any sort of reform, on the part of the more favourably situated individuals in society. These persons recognise that they have, in their fortunate position, something worth retaining. Whether a satisfactory use is always made of the opportunity which is theirs, is for the moment, outside the argument. Until recently, every proposal for a change has attacked their position. They have replied, and with reason, that they have just as much, or if it be preferred, as little claim to consideration as those persons who have attacked them, and, in any case, there they are, and there they mean to stay. This incidentally demonstrates the futility of abstract justice when in opposition to the solid facts of life.

In thus opposing claims for a general levelling down of the amenities of modern civilisation, such persons were probably on sound ground, although the tactics adopted by them may have (71) been of dubious sagacity; but it is to be feared that, in many cases, this opposition to a bad change, has become crystallised into opposition to a change of any kind. It may, therefore, be of practical value to emphasise the fact that at the present time the alternative is not between change and no change, but between a change for the

better, or a change for the worse. If the present system, with its sanctions of rewards and punishments, were working satisfactorily or even tolerably, nothing could be more academic than the discussion of more desirable alternatives, even though the logic applied to such proposals might demonstrate with crystal clearness that an advantage was thus to be obtained. But the facts are wholly otherwise. It is almost certain that, were there no proposals of any sort, good, bad, or indifferent, Socialistic, Communistic, or Imperialistic, being pressed forward at the present time, by every means and sanction which can be applied to them, the present social and industrial system would no longer work. As we shall shortly see, there are quite definite mechanical defects in it, and the result of those mechanical defects is to produce a psychological reaction, which can only result, if allowed to proceed to its logical conclusion, in a state of affairs which will involve both the (72) temporarily fortunate and the temporarily unfortunate, in a common chaos.

For at least forty years the doctrine of Sabotage, *i.e.* the conscious restriction of output, has permeated all sections of Society and is a logically, and in a restricted sense, a perfectly proper method of obtaining the best results for the individual under the rules by which business and Society is at present conducted. Not to admit that, is to shirk facts. And not to see that this restriction of output (using the phrase in its broadest sense, to include all descriptions of unspecified activity at present widely outside the range of economics), is nothing but social suicide, is equally to shirk facts. The test of a natural law is that it is automatic and inexorable, and the proof of the contention which is advanced in this book, that as soon as Society ceases to serve the interests of the individual, then the individual will break up Society, is proved by the course of events at this time; and those persons who wish to preserve Society can do no worse service to their cause, than to depict their idol as an unchangeable organisation whose claims are to be regarded as superior to those of the human spirit.

The stage is set for a change of mechanism; in place of a Society based on restraint, a Society (73) based on the conception of assistance, of co-operation, is overdue. Let us be clear that the only assistance which is tolerable or acceptable is that which can be declined if it is not wanted. (74)

## **PART II: THE MECHANISM OF THE CLASSICAL IDEAL**

### **CHAPTER I**

#### **THE WORKING OF THE MONEY SYSTEM**

IF the considerations thus far advanced are accepted as valid, certain conclusions seem inescapable. A system of Society which depends for its structure on the theory of material rewards and punishments, seems to involve, fundamentally, a general condition of scarcity and discontent. You cannot reward an individual with something of which he has already sufficient for his needs and desires, nor can you easily find a punishment which will be effective in a world in which there is no incentive to crime. We might legitimately

expect, in such a Society, a mechanism which would ensure a continual, and, if rendered necessary by the advancement of science, an artificial disparity between demand and supply of material goods and services, together with an organisation which would prevent any infringement of the rules by which this disparity is maintained.

We do, in fact, find exactly such a state of (78) affairs in the world to-day. The exact methods by which the financial organisation produces the illusion of scarcity will demand our attention almost at once, and at some length; the organisation by which these arrangements are enforced is, of course, familiar in the form of the Common Law.

It is astonishing to what an extent the co-operation between Finance and Law extends without attracting any considerable body of specific comment. What is called Civil Law is concerned almost wholly with matters which can be referred ultimately to the Money System. That is obvious. But it is not less true to say that an overwhelming majority of so-called criminal cases can be traced, either directly or indirectly, to a financial incentive. Even crimes of passion take their origin, in the majority of cases, from physiological or psychological reactions which can be traced back to economic or financial causes. The world is full of organisations for the suppression of such social evils as inebriety and prostitution. The financial origin of the latter hardly needs emphasis, but it is not so generally recognised that habitual industrial overstrain, long hours, and insanitary conditions of work, and the excessive indulgence in alcoholic or other artificial stimulation, are (79) almost invariably found in one and the same geographical locality. And in nearly every case, attention is directed to the suppression of the symptom, rather than to the removal of the cause, with the result that the partial suppression of one evil is only achieved at the cost of producing a fresh and probably more insidious disease.

It has already been, it is hoped, made clear that the gap between Demand and Supply has nothing to do with the ability of the production and industrial system to meet the calls which are made on it; it has to do with the organisation which stands in between Demand and Supply, that is to say, the Financial or Ticket System. In other words, the persons who want and cannot do without the goods which the productive and industrial system can, and is anxious to supply, have not in their possession the tickets, the possession of which is essential before these goods, under present conditions, can be handed over.

Now this condition has not entirely escaped attention, but most, if not all, of the attention which has been directed to it is, I think, stultified by accepting as true, premises which proceed from the very system which is attacked. There is, of course, the crude idea on which, (80) originally, most of the orthodox Labour-Socialist propaganda was based. Observing the condition we have just outlined, the simple suggestion was put forward that the majority of the population were so poor, *because* a minority were so rich. This simple explanation died hard, even if it can be said to be dead. It survived a number of statistical investigations, mostly with the intent of showing that we do not work hard enough, of which perhaps the latest and most complete have proceeded from the London School of Economics, an institution which combines the curious qualities of being the fount of financial orthodoxy, staffed by the flower of Socialistic personnel, chiefly chosen and paid by bankers and financiers. Professor Bowley, who was, if I am not

mistaken, connected with this institution, in a treatise on the Distribution of the National Income, referring to a period immediately preceding the first world war, estimated that the total British income in excess of £160 per family per annum, was only £250,000,000. Taking the population of Great Britain as forty-five millions, and the average number of persons per family as about 4.5, which is a usual assumption, it is clear that an "equitable" division of this income would result in an increase of the average family income by (81) £25 per annum, which can hardly be said to be a promising basis for a sweeping reform by taxation. As in addition, such a distribution would, under present conditions, make the possession of such articles as motor-cars impossible to any private owner, and so would completely inhibit their production, and the wages, salaries and dividends distributed in respect of that production, it must surely be obvious that an explanation more complex than this must be looked for. The point we have to make is not merely that financial purchasing power is unsatisfactorily distributed, it is that, *in its visible forms*, it is collectively insufficient.

One stage in advance towards this end is the theory generally associated with the name of Mr. J. A. Hobson, who attributes the general lack of purchasing-power (the *fact* of which he most properly emphasises), to the undue investment, of savings, on the part of the more fortunate members of Society, in what are termed capital undertakings, with the result that production of capital goods is in excess of the amount required. That such unbalanced production does take place, is unquestionable; but that Mr. Hobson's explanation is inadequate to explain the process which accompanies and complicates this unbalancing, is, I think, not (82) less certain. Nor does this theory account for the collective growth of bank deposits.

Both of these explanations really proceed from a misconception of what actually takes place in the financial and costing departments of industrial organisations, and a further failure to grasp the possible relation which can exist between the abstraction of money and the concrete physical realities to which it relates. There is every justification for these misconceptions; they are strictly orthodox in the sense of being the general teaching of the majority of those persons who claim to be experts on the matter; and it is necessary that they should be stated in order that the invalidity of them may be exposed.

This orthodox theory, then, assumes that the money, equivalent to the price of every article which is produced, is in the pocket, or the bank pigeon-hole of somebody in the world. *In other words it assumes that the collective sum of the wages, salaries and dividends distributed in respect of the articles for sale at any given moment, which represent collective price, are available as purchasing-power at one and the same moment.* Certain persons have more money in their pockets or bank pigeon-holes than they wish to spend on consumable goods. They do not spend it, they save it, as (83) the phrase goes. By this abstinence from spending, they form a fund which enables capital goods, *i.e.* tools, plant, factories, to be paid for, and therefore produced, and because of the process by which these are paid for the capital goods thus produced become the property of those persons who have thus saved.

Now the first point to be grasped in regard to this argument as a whole is that, even

supposing at any given moment it were true, one week afterwards it could no longer be true. If on a given day, there was extant in the world, sufficient money to buy all the goods in the world at the prices it had cost to produce those goods, and any portion of that money were applied to form the payment for the production of new goods, then that money so applied forms the costs of the new goods, and immediately there is a disparity between the total *costs*, which are the minimum total *prices* of goods, and the amount of money in the world which would *ex-hypothesi*, be exactly the same as before. This would be true even if no one "saved" any *further* quantity of money. The persons who had saved the money would not have saved the goods which the original money represented, they would merely have transferred their claims from the original goods in existence to new (84) goods, and could only "get their money back" by the sale of those goods; nor would there be any mechanism in existence by which the old goods could be bought. That surely must be self-evident.

But the process does not stop there. From the investor's or "saver's" point of view, his only object in putting his money into capital goods is to get an increased amount of money back, and on Mr. Hobson's assumption, in particular, he can only get this money back from the public in the form of prices. The condition then is, that there are more goods in the world at each successive interval of time, because of the financial saving, and its application to fresh production, while the interest, depreciation, and obsolescence, on this financial saving has to be carried forward into the prices of production during a succeeding period. Each pound saved would be a pound withdrawn from consumption and put into production. Since costs must be less than prices, it only requires a very simple examination of this condition to see that the cycle would become unworkable in a very short period of time, since no one would be able to buy anything. Depreciation alone would absorb the world's purchasing-power, although not seriously diminishing the world's true (85) wealth, and if no other factors intervened, we should have starved in the midst of plenty many years ago.

In every criticism of the social distribution of wealth made public prior to 1918, the assumption is implicit that money or purchasing-power is confined to legal tender, and that bank deposits, etc., on which cheques are drawn, are deposits and withdrawals of legal tender only. This is in part equivalent to saying that banks and financial institutions only re-lend money which has previously been lent to, or deposited with, them. There is also a nebulous idea involved, I think, to the effect that the man who grows, *e.g.* a ton of potatoes, also grows the purchasing-power of a ton of potatoes. The facts are far otherwise, as no doubt large numbers of potato-growers could testify. Given a fixed amount of legal tender, and assuming legal tender to be the only purchasing-power, no amount of production would increase it. Probably a minimum of nine-tenths of the immediately available purchasing-power in the world arises out of bank loans or their equivalent in bills discounted. These loans and the purchasing-power which they create have no automatic relation to either production or consumption. This question has aroused a good (86) deal of controversy and has been treated at some length in previous volumes. But a short and, I think, conclusive mathematical demonstration is available which may serve to dispose of the matter.



Let Deposits = D  
 Let Loans, etc. = L  
 Let Cash in Hand = C  
 Let Capital = K

Then we have

Assets = L+C  
 Liabilities = D+K  
 So that L+C = D+K

Differentiating with respect to time, we have--

$$\frac{dL}{dt} + \frac{dC}{dt} = \frac{dD}{dt} ; \text{ K being fixed, } \frac{dK}{dt} = 0$$

Assuming that the Cash in Hand is kept constant

$$\frac{Cd}{dt} = 0.$$

$$\text{Therefore } \frac{dL}{dt} = \frac{dD}{dt}$$

which means, of course, that the rate of increase, or decrease, of loans is equal to the rate of increase, or decrease, of deposits.

Now this theorem that bank loans create bank deposits, and the deduction from it that the repayment of bank loans destroys deposits, (87) is vital to an understanding of the process we have been discussing. The deficiency between purchasing-power, and goods with money prices attached to them, can be made up (at any rate to a large extent) by this process of creating bank money. This enables the business cycle to be carried through. And conversely, the refusal to create fresh money by banking methods or otherwise, whatever the cause of this refusal may be, is sufficient to paralyse both production and consumption. There is no doubt whatever about the facts; in the past three years we have had the two conditions side by side; in Great Britain a restriction of credit and consequent industrial stagnation; on the Continent, enhanced credit issues, and great industrial activity.

The repayment of bank loans, unaccompanied by the destruction of the article produced as a result of its creation, immobilises an equivalent body of price values, so that neither can the articles to which the prices refer be sold, nor in the case of machinery, etc., is it possible to make any charges in respect of consumption goods which are consequent on the use of such machinery, without still further increasing the disparity between the goods



available still, and the money available to buy them. (88)

This is surely plain enough; but it has also to be remembered that this process of repayment of bank loans, is a "chain" process, which starts with the repayment, by the last business concern engaged in the manufacture of the articles, of the costs and profits incurred by the stage of manufacture immediately preceding it. If this operation be clearly visualised, it will be seen that all payments of costs of goods supplied by one business firm to another business firm for re-sale, can be assumed to be the repayment of bank credit, if the first stage in the manufacture of the goods was financed by a bank credit. But we can go further and say, that the difference between finance by bank credit, and finance from so-called capital or savings, is only one of degree and not of kind, since those very savings, as will be seen by a careful examination of the foregoing argument, had their origin in a creation of credit.

We may now be in a position to appreciate the bearing of the foregoing analysis on such theories as those of Mr. J. A. Hobson. We have seen that the factor which modifies so profoundly the importance of the considerations adduced by Mr. Hobson, is that the inadequacy of the money available in the hands of the public to buy the goods normally available, at (89) the prices necessitated by the system under which they are costed, is countered by the ability, and the normal practice of banking and financial institutions to create and circulate forms of purchasing-power which function quite as effectively as the sovereign or the treasury note. This circulation largely functions through wages and salaries paid out in respect of capital production or goods destined for export. Unlike the sovereign, or the currency note, however, these forms of bank-created purchasing-power, are nearly always redeemable within a definite period of time. It is a feature on which the banks place the most weighty importance; and exactly why this is so is worthy of, and will receive, close consideration in a succeeding chapter.

It is fair to say that almost any explanation which is not a full and accurate explanation of the working of the financial system, has the curious result of playing directly into the hands of the upholders of that system. The simple Labour-Socialist criticism, which emphasises the contrast between the rich and the poor, forms a perfect moral sanction for the imposition of taxes on any portion of the community which is above the starvation level, since to the man who has only two hundred a year, the man (90) with six hundred a year is rich. And it is logical, on the theory that purchasing-power is merely mal-distributed, that Mr. J. A. Hobson should devote much of his attention also to taxation.

The business of dealing in money as a commodity is, as has already been pointed out, advantaged by anything which accentuates the scarcity of money, so that any form of attack on the business system, the constructive effect of which is to support increased taxation, can, and does, receive support from the inner circles of High Finance. Since the greater part of the real purchasing-power of the world is in a potential form which is not represented by any figures anywhere, but can be materialised by those in possession of the secret of the process, as and when required, taxation of *visible* purchasing-power is exactly what is most valuable in maintaining the power and supremacy—the power to reward and punish—of the money-"makers." There is probably not a "levelling-down"

movement of any description anywhere, which is unsupported from Lombard Street, Wall Street, and Frankfort. (91)

## CHAPTER II

### THE NATURE OF PRICE

IN the foregoing chapter we have endeavoured to establish two important propositions in generalised terms. The first of these is: --

(1) That the collective prices of the goods available for sale at any moment in a given community, if they have been produced by ordinary commercial methods, cannot be met by the money available through the channels of wages, salaries, and dividends, at one and the same moment. They can be exported in return for purchasing-power, or they can be destroyed, or they can be bought by purchasing-power which is created and distributed *in respect of a separate cycle of production*. This situation is worsened by what is called saving, but is independent of saving at the present time.

It may be noted that both in Europe and America, there are numerous endeavours being made, and theories propounded, to explain this fact; which was, until recently, denied as (94) a fact. The foreword to a work by H. B. Hastings,\* published in America, remarks:

"By an accounting method of analysis, the conclusion is reached that the value, at the current retail price-level, of goods produced far exceeds the flow of purchasing-power from permanent sources. In other words, recurring periods of business depression are shown to be the result of present financial and business policies.

"The importance of this new method of approach to the most important of modern economic problems is self-evident."

(2) This situation would be almost immediately destructive to the working of the business system, if the financial technique did not provide a source of purchasing-power, or new Money, in the form of bank loans and credit instruments, which does not arise out of wages, salaries, or dividends, paid for past production. By the exercise of this technique, however, industry becomes mortgaged to the banking system.

While there are good, sound, and fairly obvious reasons why, in any case, the stupendous power of creating and destroying the major portion of the purchasing-power in the world

\* "Costs and Profits." (95)

should not be vested in the hands of private and irresponsible persons, it is probable that such considerations would fail to produce any very radical alteration in the system if they formed the only basis on which criticism could rest. It is probable that chattel slavery as

an institution would be more or less permanent if every slave had been perfectly comfortable. That is to say, the objection to the situation is that it does not work, rather than that it is immoral. While the power of creating effective money has, up to the present time, enabled banks to mask a good many of the defects of the financial system, it has, particularly in the last few years, failed definitely to remedy some of the more vital of them. The financial mechanism has acquired a considerable control over the rate and the manner of issue of money and purchasing-power, and to a large extent, this power has become unified and centralised so that it forms an international organisation of the most stupendous power, but it has to a lesser extent only, achieved control of the other aspect of finance which is exhibited in the form of prices. It is true enough that widespread efforts have been made on the part of the large Joint Stock and International Banks to control general price levels by increasing or decreasing the (96) amount of money available in the pockets of the public. But these efforts may be said quite definitely to have failed, or at any rate to have fallen far short of the expectations of those who have put them into operation.

The reasons for this failure are not far to seek. The financial mechanism has a positive and negative aspect, the positive aspect being represented by the issue of money, and the negative aspect being represented by the exchange of the money thus issued for goods and services, through the medium of prices. It is obvious that if money is the only claim upon goods and services, the less money there is available, the more goods and services each unit of this money will command, *if there is always a willing seller*. This is merely one method of stating the well-known quantitative theory of money. It results from this that if there were no other factors involved, a contraction in the amount of available money would result in a fall of prices, since each unit would buy more goods and services. And it is on this simple principle that, since 1920, the banks have endeavoured to control the general price levels, more especially in Great Britain. While prices have not fallen from this cause to anything like the extent that they rose under a contrary (97) policy, the restriction of credit which has been in operation since 1920, did undoubtedly tend to arrest the spectacular rise in prices which was in progress at the time of its initiation. The reason for the limits which are set to the reduction of general price levels by "deflation" is simple; when prices are reduced to approximately the equivalent of costs, the willing seller disappears.

Even this modified success has been achieved at the cost of widespread distress arising out of unemployment and bankruptcy, results which must inevitably accompany such a policy. The natural and mathematical result of the operation of a financial and costing system, which requires that all the costs, or issues of purchasing-power, distributed during the production of an article, shall eventually be recovered in prices, is a continuous rise in the *cost* of production of any article produced by a given process. This rise can be, and is, *temporarily* offset by improvements of process, but only temporarily.

Now any attempt, by current financial methods, to reduce prices (or even to stabilise them, as the phrase goes) is a mathematical absurdity unless the cost of this stabilisation, or lowering of prices, is met from some extraneous source. Or to put the matter another way, (98) the margin of profit which makes it possible for a producer to go on producing,

disappears unless the financial cost, and consequently the price of production, is allowed to rise steadily in relation to direct labour cost. As a result of this, if prices are forced down, production stops, and stocks are sold only at prices which mean loss, and ultimately bankruptcy, to the manufacturer and distributor. This is the situation produced by the fall of prices again initiated in 1928.

To put the matter in a form of words which will be useful in our further consideration of the subject, *the consumer cannot possibly obtain the advantage of improved process in the form of correspondingly lower prices, nor can he expect stable prices under stationary processes of production, nor can he obtain any control over the programme of production, unless he is provided with a supply of purchasing-power which is not included in the price of the goods produced. If the producer or distributor sells at a loss, this loss forms such a supply of purchasing-power to the consumer; but if the producer and distributor are not to sell at a loss, this supply of purchasing-power must be derived from some other source. There is only one source from which it can be derived, and that is the same source which enables a bank to lend more money than it originally received. That is to say, the general credit.* In spite of the immense strides (99) made in the direction of improved process since 1914, prices are still nearly double those obtaining at that date, while industrial profits are much less.

It may now be possible to see with some degree of clearness the difficulties in which those institutions and organisations which control the general credit at the present time find themselves. It is true enough that they can manufacture "money" to an almost unlimited extent; *this power resting on the general willingness of the public to accept anything which will function as money.* But the psychology which has grown up on the basis of the theory of rewards and punishments forbids the exercise of this power, except in return for services rendered. The financial equivalent of all services rendered in the production of an article, forms the cost of that article, and conversely, nobody will furnish any services in connection with the article which are not represented by cost, and therefore go into price. The old fable of the Fairy Gold which disappeared as it was grasped, can thus be seen in its every-day embodiment; and the result of these creations of credit granted to producers only, instead of to consumers, is to produce a rise of prices which nullifies the additional purchasing-power thus created. (100)

There is, as a result of the problems created in Great Britain by a restriction of credit, a quite considerable body of persons, more especially among manufacturers, who are openly demanding a large increase in the volume of credit to be issued to manufacturers. It is hardly denied that such a process would cause prices to rise, and in fact it is frequently argued in quarters which might be expected to know better, that a rise of prices would be an advantage, because it would decrease the burden of the National Debt, since the amount of money represented by the National Debt would have a decreased purchasing-power in goods and services. There could hardly be a more vicious example of the classical or static method of thought and argument.

It is true that the National Debt was created and appropriated, by methods, subsequently to be explained, which are indefensible from almost any point of view, more especially as

the greater part of the Debt is held by financiers and financial institutions. But a considerable, if minor, proportion of the Debt has been sold to members of the public in return for money which they obtained by legitimate methods, and in addition to this, it is of course impossible to reduce the purchasing-power of the National (101) Debt without reducing, *pro rata*, the purchasing-power of other descriptions, however small in amount, of credit-instruments held by the general public. Now to a man who has one million pounds, it may be a theoretical hardship or "punishment" to reduce the purchasing-power of his one million pounds to that of five hundred thousand pounds, but the practical effect on his scale of life and on his personal freedom of his movements and initiative is *nil*. But to reduce the income of the man who has two hundred pounds per annum to one hundred pounds per annum, is the difference between simple comfort and practical starvation. And the number of persons who would be adversely affected by a rise of prices is incomparably greater, so far as numbers are concerned, than those who are hit by a fall of prices. The appropriation of large blocks of public credit is buccaneering; but the filching of the widow's mite by a "gradual" rise of prices is pocket-picking of the meanest type. It is not necessary to condone the monopoly of Public Credit, or to acquiesce in it, in order to agree that inflation is the very core of the evil. There is almost nothing to be said for a policy of deflation, as defined by the average banker, except that it provides a breathing space in which to consider (102) what to do; the real argument against it is not that it reduces prices, but that it only does so at the expense of the producer; but a policy of inflation, that is to say, a policy of increasing issues of money or credit in such a manner that it can only reach the general public through the medium of costs, and must, therefore, be reflected in prices, has one thing and one thing only to be said for it at this time; that it is absolutely and mathematically certain to reduce any financial and economic system to ruins. It is in fact a Capital Levy of the meanest and most one-sided description, since it taxes the purchasing-power of those who obtained it by work for the benefit of those who obtain it by financial manipulation.

The condition which is produced by a policy of restricting the amount of money in circulation can be grasped without difficulty, if it be remembered that it must involve a numerical decrease in both the total figures of cost and the total figures of price for a given period of production. The only portion of the total costs which can be decreased without loss to the producer are those represented by wages and salaries, the remainder being fixed charges based on the capital costs already incurred. Wages and salaries costs are purchasing-power, and (103) collectively are much less than collective prices. Imagine both collective wages and collective prices to be diminished by an equal amount  $x$ . This may be written: Costs = purchasing-power.

Costs are  $<$  prices.

Therefore  $\frac{\text{Costs}}{\text{Prices}}$  is  $< 1$

Therefore  $\frac{\text{Costs} - x}{\text{Prices} - x}$  is  $< \frac{\text{Costs}}{\text{Prices}}$

An addition to both the numerator and denominator of the fraction, such as is brought about by a rise of wages, accompanied by a rise in price, has, of course, the opposite effect; it brings the ratio of purchasing-power to prices nearer, though never to unity, with the result, seen in Germany in the inflation period, of immense, though unstable, economic activity, accompanied by great hardship to the professional and rentier classes, both of whom have claims to consideration, and a most undesirable concentration of economic power, resulting infallibly in the enslavement of the artisan.

Even without demonstration, therefore, it is easy enough to see the effect of either deflation or inflation by the exercise of analytical methods; but nothing of the sort is now neces- (104) sary. A full-scale demonstration of both of them has taken place since Chapter XIII of *Credit Power and Democracy* was written; and the course of events in Germany, under a policy of reckless inflation of credit, reappearing in prices, followed with some exactness the sequence, both economic and psychological, which was explained therein, and can be considered and compared with the contemporaneous restriction of credit in Great Britain. During a few months of 1923 a condition of fairly steady, though high, prices was maintained at the cost of increasing industrial stagnation; and the fact that this situation changed into an era of rising prices, accelerated by every effort to grapple with the "unemployment" problem by orthodox methods, should be conclusive proof of the inability of the existing financial system to carry out the policy of "Stabilisation."

The efforts to control prices by manipulating credit along orthodox lines culminated in the unmanageable fall of prices which began in 1928, a fall which complicated, although it did not cause, the financial crisis of 1929 in which the world is still (1933) involved. (105)

### CHAPTER III

#### UNEMPLOYMENT-OR LEISURE?

IT was pointed out in Chapter VI, Part One, that there are two separate and distinct inducements to what is called employment. The first of these inducements is involved in the necessity under which humanity labours to provide itself with bed, board, clothes, and such so-called luxuries as are effective in setting free individual energies. That is an elemental necessity imposed by the natural conditions of our existence, and it is a primary necessity, in the sense that until it has been met we are not free to devote our attention to other matters. It is incontestable that the most efficient method of dealing with this primary necessity so far evolved is by co-operative methods such as have been incorporated in the industrial system of the past hundred years or so.

But the second necessity under which men and women labour, *after the primary necessity has been met*, can broadly be described as the satis- (108) faction of the artistic instinct; which can be further analysed and defined as the incorporation in material forms of ideals conceived in the mind.



It is one of the numberless evidences of the skill and knowledge of human nature which is resident in what we have called the Invisible Government, that these two human necessities are confused in many arguments which proceed from apparently divergent authorities on industrial and social questions, which arguments, when analysed, may be seen to buttress the classical ideal. Until recently, the statement that a large body of the public lived on the verge of starvation, *because* it was unemployed, and that, therefore, the problem of the modern world was the abolition of *unemployment*, received almost universal assent. It is fair to say that opinion is no longer so unanimous on this matter; and in consequence, from the position of being stated as an axiom, it may be observed that it is receding into the position of a proposition to be proved, and the confusion to which we have just referred is more or less successfully invoked to this end. Heavy taxation, bankruptcy, and general industrial stagnation are paraded by the Press and the average business man to support the statement that (109) "markets must be found for our goods." Such "Labour Leaders" as Mr. J. H. Thomas have been tireless in explaining with somewhat unctuous rectitude that their constituents desire work, not doles. It is important to examine what may be behind this statement, and in order to do this, and because those for whom Labour Leaders are supposed to speak are much in the public eye as the sufferers by unemployment, we may begin by examining that form of distribution of purchasing-power popularly called the "Dole."

In the first place, the term "Dole" carries with it a definite stigma as of an allowance made by charity to persons unable to help themselves. It carries the smallest possible suggestion of self-respecting independence. The origin of this designation as applied to the unemployment allowance is obscure (more particularly having in view the fact that it is based on compulsory unemployment insurance to which both employer and employed contribute), but it may be assumed that it did not, like Topsy, grow out of nothing. The payment of the thing itself is hedged round with such forms of indignity and inconvenience as the official mind, with every stimulus to activity, can devise, and although fundamentally when it (110) ceases to be an insurance claim the dole is a small dividend on the National Income—a forerunner of "Dividends for All"—it is certainly the Cinderella of dividends, and is treated accordingly. Collectively, it is put in the foreground as being one of the chief sources of expense contributing to the burden of taxation under which the rest of the community is struggling, and thus has the effect of creating a feeling of hostility against its unfortunate recipients, which may be compared with the orthodox Socialist outcry against other and more familiar forms of dividend. The enforced leisure enjoyed by those who participate in it, is rendered practically valueless by the regulations which surround it. To be seen doing an hour's casual work is to render a member of the unemployed liable to penal servitude for fraud, and the passport system of Russia was simple in comparison with the forms necessary to regularise half a day's wood-cutting by an individual registered at a Labour Exchange. And it must be borne in mind that the dole does not represent anything but a claim on goods of the simplest description, of which the persons from whom it is collected in taxation already have enough for their needs, and thus are merely, and uselessly, restricted from the satisfaction of (111) further requirements which would provide the "employment" said to be lacking.

And yet in spite of all this it is notorious that to be unemployed and drawing the dole for

any length of time, means in all probability that the individual concerned will never seriously compete for steady employment again *under the conditions which exist at present*. That is to say, given the satisfaction of the primary necessity for bed, board, and clothes, even under the most disadvantageous conditions, the human individual can find more attractive forms of outlet for his activities than those which are afforded by the present-day industrial system, taking into consideration its hours of work, remuneration and general amenities; and it requires the assurance chiefly found in millionaires, to assess the comparative value of such activities either to the individual or the community, under the conditions which exist in the world to-day. It may be said that at any rate they do not accelerate the progress towards another Great War, which would be the result of general employment in production for export.

Now it is fair to say that Labour leaders are, although they may not consciously know it, amongst the most valuable assets of the financial control of industry—are, in fact, almost in- (112) dispensable to that control; and the reason for this is not far to seek. They do not speak as the representatives of individuals, they speak, as they are never tired of explaining, as the representatives of Labour, and the more Labour there is, the more they represent. It is natural that employment should be represented by them as being the chief interest of man; as the representatives of the employed, their importance is enhanced thereby. As a consequence, the battle between the employing interests and the Labour leaders who claim to represent the employed is, and must be, fundamentally, a stage battle, since there is a consensus of opinion on both sides that what is wanted is more employment. There is nothing like leather.

Considering the matter always from a practical point of view, it must be evident that the soundness of this stress on the prime necessity for continuous and general employment, using that term in the narrow sense of commercial employment for wages, rests on quite other grounds than the use of employment as a means for distributing wages—can, in fact, only rest on the premises of either the Modernist or the Classical idea. In regard to the first of these, it is obviously dependent on how much human effort is necessary at the present stage of industrial progress to produce a generally satisfactory standard of material civilisation, and the proportion that the amount of human (113) labour necessary for this purpose bears to the number of individuals who are willing, without pressure of any kind, to employ a reasonable proportion of their time in meeting this requirement. It has previously been suggested that the facts in relation to this situation do not furnish any justification for suggesting that even a large number of commercially unemployed necessarily threatens the material welfare of the community and there is a large amount of sound evidence pointing in the opposite direction.

But we can go further. It is not sufficient to say that the unemployment problem, as distinct from the distribution problem, is largely a delusion. As we have seen in the immediately preceding chapters, there is an *employment* problem in the sense that our financial mechanism does not bear any specific relation to, nor fundamentally does it take any account of, the introduction into the equation of production of solar energy in its various forms. To put the matter another way, if the unemployment problem were solved to-morrow, and every individual capable of employment were employed and (114) paid

according to the existing canons of the financial system, the result could only be to precipitate an economic and political catastrophe of the first magnitude, either through the fantastic rise of prices which would be inevitable, or because of the military consequences of an enhanced struggle for export markets.

Why, then, is there so great a misdirection of attention in a matter of such primary importance? There is, I think, only one general and comprehensive answer which can be given to this question; and that is, that whether consciously or not, there is a widespread feeling on the part of executives of all descriptions that the only method by which large masses of human beings can be kept in agreement with dogmatic moral and social ideals, is by arranging that they shall be kept so hard at work that they have not the leisure or even the desire to think for themselves.

The matter is rarely stated in so many words. It is more generally suggested that leisure, meaning by that, freedom from employment forced by economic necessity, is in itself detrimental; a statement which is flagrantly contradicted by all the evidence available on the subject. It is hardly an exaggeration to say that 75 per cent of the ideas and inventions, to which (115) mankind is indebted for such progress as has been so far achieved, can be directly or indirectly traced to persons who by some means were freed from the *necessity* of regular, and in the ordinary sense, economic employment, in spite of the fact that such persons have never been more than a small minority of the general population. Even where transcendent genius has been able to overcome the limitations of financial stringency, it is probable that the results achieved have been nothing like those which would have enriched the world had those barriers been non-existent. To use a somewhat homely simile, it is common knowledge that every racing stable produces a higher percentage of "weeds" than potential Derby winners; but he would surely be foolish who would suggest that the way to get more Derby winners would be to work horses of every description at the plough. It is probably true that there is an appreciable percentage of the population in respect of which any sudden access of material prosperity would be attended with considerable risk, and for that reason the transition from a state of artificial scarcity such as exists at the present time, to a state of prosperity, is most desirably accomplished by methods which do not too suddenly invest such persons with powers (116) which they have not learnt to use. But to suggest that an obsolete and outgrown system of organisation, must be retained because of this risk, is to refuse to develop the railway, because of its detrimental effect upon the stage coach.

We are thus, I think, justified in concluding that this misplaced emphasis on "Unemployment" can be explained only by reference to theories which are "Moral" rather than "Economic"; and we are not obliged to take the "Morals" of the Labour leader as proceeding from a source other than that to which we can trace his Economics. (117)

## CHAPTER IV

### POVERTY AMIDST PLENTY

BEFORE returning to a consideration of the working of the financial mechanism, with a view to understanding the manner in which it is made subservient to a Classical rather than a Modern conception of Society, it may be useful to examine further ideas which are invoked to give support to the policy; and one of such ideas which is being worked hard at the present time is that of the necessity for economy.

To the ordinary individual at his wit's end to achieve the task of making a small income meet an expenditure which invariably threatens to exceed it, the necessity for such economy would seem obvious and unanswerable. To those who have followed the arguments adduced in the preceding pages, it will be clear that there is a good deal to be said after granting, readily, the fact that the money incomes of the population are reduced by taxation, unemployment and otherwise, to a point at which (120) lavish spending is quite impossible. It is probable that at the present time there are 25 per cent more shops or goods-distributing centres in Great Britain than there were in 1914, and it certainly would be difficult to suggest that those shops are empty of goods. It is impossible to take up a daily newspaper without observing that the major portion of it is devoted either to the necessity of increasing trade, or to the discussion of subjects whose interest largely depends upon that necessity, and one of the simplest and most obvious questions which arises, is the enquiry as to how the shops are to be emptied of their goods and this all-important "Trade" is to be stimulated and expanded, if everyone is more economical; which would appear to mean that they are to spend less, and save more.

This idea of thrift, like that of economy, is an example of the perversion of an idea which has lost its original application. When the business of obtaining bed, board, and clothes did, in fact, necessitate the application to it of the major portion of the day, it was a sound and far-sighted policy to simplify these needs as far as possible, not because there is any inherent virtue in simplification *per se* (which is a common delusion), but because the setting free of (121) the time of the general population for other aims was a valuable achievement. But the devastating rigidity of thought, which is a distinguishing characteristic of the Classical or "Moral" mind, fastened on this situation and crystallized it into a static virtue. Once a virtue, always a virtue. The fact that there is no physical limitation to the satisfaction of reasonable material requirements—that in fact there is no such thing in the modern world with the exception of Russia as a poor country in any sense other than that of a scarcity of tickets to operate satisfactorily as purchasing-power only serves to transfer this exhortation to be thrifty, from goods of which there is a surfeit, to money of which there is a scarcity. The situation is similar to that of a man provided with every form of food, and with coal, wood and matches with which to cook it, but who is accustomed to cook his food upon a paraffin stove, and is informed that there is only a pint of paraffin left, and that in consequence the most rigid economy of food must now and in the future be enforced. And the extraordinary part of it is that the world in general as represented by the man, seems unwilling to try the effect of either wood, coal, or any other fuel than the metaphorical paraffin; or even, if forced, to eat

(122) his food uncooked. It is hardly necessary to stress the attractions of this situation to the paraffin merchants.

Taking the situation as it is, and assuming an increasing capacity to produce and deliver goods per unit of time as the consequence of scientific progress, it is not difficult to see where obedience to this parrot cry of economy must lead us. If it does, in fact, reduce or even stabilise our consumption of the goods produced, and the hours of work, and the number of commercial workers remains the same, then, not only is unemployment stabilised, but either a greater proportion of the production of these workers must year by year be exported, or in some way or other, more and more producing organisations must be built up and the problem complicated at compound interest. Since, under these conditions, every country would be an exporting country, and the exporting of goods to other planets is not at present practicable, it is not difficult to foresee that complications may arise. When in addition we see the purchasing-power of "savings" constantly filched by excessive prices and predatory taxation, the adjuration to "save more" seems to underrate even the meanest intelligence.

The word "economy" originally meant the (123) management of the household, just as "thrift" originally meant progress in achieving a happier and therefore saner state of life, and in this sense it is clear enough that both words still have a definite and useful meaning. But so far from the financial economy and thrift, which is so constantly preached at the present day, representing either good management or sane progress, it is mathematically demonstrable that it can only result in unbalanced production and consequent catastrophe. The only object of production is consumption, whether that consumption takes the material form in which the word is commonly understood, or whether we extend its meaning to include the artistic gratification which is to be obtained from production carried out under suitable conditions. And so far as production either fails, or is in excess in respect to these demands, neither economy nor thrift, in any true sense of the word, can be involved.

A further example of the perversion and misuse of words, in order to obtain the defeat of the concrete embodiment of those words, is in regard to the common use of the word democracy, and its glorification as an end in itself. In so far as the word is used to suggest the detailed administration of public affairs by the majority, it (124) is a pure fantasy, and not only never has existed but it would seem probable, could never in the nature of things exist. In any kind of world of which we have any conscious experience, it would be a nightmare. If ten men be selected at random, and problems of graded difficulty be submitted to them, it is possible that the very simplest problem will be solved by all of them, but a point will rapidly be reached at which a decreasing minority will have any grasp of the subject at issue. In so far as the matters submitted to their judgment are not matters of precedent (and progress consists in a constant departure from precedent) it is certain that the minority of our selected ten will tend to be right, and the majority will always be wrong. On matters of policy, however, in sharp contra-distinction to the methods by which that policy should be carried out, the majority may be trusted to be right, and the minority is very frequently wrong. To submit questions of fiscal procedure, of foreign affairs, and other cognate matters to the judgment of an electorate is merely to

submit matters which are essentially technical to a community which is essentially non-technical. On the contrary, broad and even philosophical issues, such as, for instance, whether the aim of the industrial system is to (125) produce employment, or whether it is to produce and distribute goods, are matters of policy, and it is noticeable that such matters are kept as far as possible from the purview and decision of the general public. In fact, the aim of political wire-pullers is to submit to the decision of the electorate, *only alternative methods of embodying the same policy.*

The domain of policy comprises the removal of executives if the results achieved are unsatisfactory. Although the general public has partially awakened, during the past few years, to the immense power exercised by the permanent and superior Government Services, it is probable that few persons who have not intimate experience of the workings of a great Government Department, understand how completely the Permanent Heads of those Departments are immune from public control. They are, in the first place, appointed under a system which ensures that they shall possess a habit of mind suitable for incorporation in the formal machine of government (and in passing it may be noted, that for success in this initial stage, a purely Classical education is almost essential). Once appointed, their promotion and success is subject to secret influences whose ramifications may be said to extend to the ends of (126) the world. The ostensible, or "Political" head of a great Government Department, is a mere tool in the hands of the superior Permanent Officials (and this is pre-eminently so in the case of the Treasury). It is not a difficult matter for the Permanent Officials of a Government Department to obtain the removal of the Political Head of it, but it is a matter of practical impossibility for the Political Head to obtain the removal of one of his own Permanent Officials. As a result, "Democracy," of which we hear so much, is defeated at the source; and it is this brand of ineffective democracy, forming the best possible screen for the operation of forces which are invisible and are not subject to criticism, which we are so constantly exhorted to preserve.

It should be clear without reiteration that this condition of affairs can only exist to perfection as a result of collectivist psychology. The prime duty of a State servant is obedience—impersonality; a surrender of individual judgment to a policy not necessarily understood. As we have previously indicated, there is a great deal to be said for this arrangement in the practical world of affairs, provided that the sources from which the policy originally proceeds are such as will stand the light of the (127) fullest publicity; but when, as is the case at present, the policy is derived from sources which shun publicity by every means in their power, unquestioning obedience, so far from becoming a public duty, becomes a public danger. (128)

## CHAPTER V

### WHY TAXATION IS HEAVY

IT has already been suggested that there is extant in the world, a common, if somewhat nebulous, idea that whoever, for instance, grows a ton of potatoes, grows thereby in some mysterious way, the purchasing-power equivalent to a ton of potatoes. This idea, while



not specifically expressed in words, is sedulously fostered by the Press, and by the other media of propaganda which are employed to convince the public that our economic difficulties proceed from insufficiency of production. It is significant that the peculiar brand of economics popular amongst Marxian-Socialist and Communistic propagandists is at one with apparently more orthodox economists, in suggesting the comparative unimportance of money in the economic system; that it is nothing but a reflection of the economic facts beneath it.

If I grow a ton of potatoes and exchange those potatoes for five currency notes of one pound each, held at the moment by my neighbour (130) next door, all that has happened is that I have five pounds which he had before. My ton of potatoes has not increased the number of pounds, although it *may* have, but probably has not, increased the purchasing-power of each pound. If we imagine this five pounds to be the only five pounds in existence, and money to be the only effective demand for goods, no one will be able to exchange any goods until I part with, at any rate, a portion of my five pounds. Now the distinguishing feature of the modern co-operative production system, depending for its efficiency on the principle of the division of labour, is that the production of the individual is in itself of decreasing use to him, as the sub-division of labour and process is extended. A man who works on a small farm, can live (at a very low standard of comfort and civilisation) by consuming the actual products of his own industry. But a highly-trained mechanic, producing some one portion of an intricate mechanism, can only live by casting his product into the common stock, and drawing from that common stock a portion of the combined product through the agency of money.

There are some deductions of major importance which can be made from these premises. The first is that money is nothing but an effective (131) demand. It is not wealth, it is not production, and it has no inherent and indissoluble connection with anything whatever except effective demand. That is the first point, and it would be difficult to overrate the importance of a clear grasp of it. It lies at the root of the question as to the true ownership of credit-purchasing-power. The second point is that, so far as we can conceive, the co-operative industrial system cannot exist without a satisfactory form of effective-demand system, and the result of an unsatisfactory money system (that is to say, a money system which fails to function as effective demand to the general satisfaction) is that mankind will be driven back to the distinguishing characteristic of barbarism, which is individual production. And the third point, and the point which is perhaps of most immediate importance at the present time, is that the control of the money system means the control of civilised humanity. In other words, so far from money, or its equivalent, being a minor feature of modern economics, it is the very keystone of the structure.

Now, the amount of legal tender in Great Britain amounts to roughly four hundred millions sterling. That is to say about nine pounds per head. If, on a given day every description (132) of effective demand, other than legal tender, was effectively demonetized, a number of interesting things would no doubt happen, but amongst them would be this: if this four hundred million pounds was to function as effective demand for the whole of the production of the country, the purchasing-power of each single pound would have to increase at the same rate as any increase in the rate of production.

That would mean that prices would have to fall in proportion as the rate of production rose, or shortly, prices would be inversely proportional to the rate of production. This statement is independent of any questions in respect of the ownership of the legal tender.

But supposing someone discovered a method of increasing the legal or customary tender, either by counterfeiting notes, or in any other way; then this process of increasing the amount of legal or customary tender would operate in the reverse direction to a process of increasing the rate of production, and if the increase in legal tender, *while continuing to function as effective demand*, paralleled the increase in productive rate, prices would remain constant per unit of productivity, assuming (what would not be true) that costs did not rise in such a manner as to drive out the willing seller. (133)

We know of certain things in connection with the productive system as matters of fact and not of theory. We know that the productive rate per man-hour has increased enormously, in some cases as much as one hundred times in comparison with the productive rate one hundred and twenty-five years ago. We know that prices over a period of years, not only have not fallen, but that they are rising. We know that there are many other forms of effective demand other than legal tender. And it does not appear to require much acumen to deduce that all these facts have some relation to each other.

We have already seen that the result of a loan by a bank is to increase the amount of collective deposits on which the bank's customers can draw; which deposits, of course, function as money. The repayment of these loans destroys these deposits, and thus destroys effective demand. This process of creating purchasing-power by means of book entries has, however, a further extension of far-reaching importance, which can perhaps be grasped by a consideration of the methods by which Great Britain financed the War of 1914-1919.

War is a consumer whose necessities are so imperative that they become superior to all questions of legal and financial restriction. *Inter (134) arma silent leges*. That is why legalists and financiers, although their existing systems tend inevitably to produce wars, are so afraid of them, and why war, terrible in itself, has so often released humanity from bonds which threaten to strangle it. As a result of this situation, the bounds which are placed upon production for war purposes are defined by intrinsic forces and not by artificial limitations. That is to say, in order to maintain a connection between finance and production, finance has to follow production instead of, as in the normal case, production having to follow finance. The extension of production to its utmost intrinsic limits, therefore, involves an extension of finance at a rate out of all proportion to that which obtains in the normal course of events, and this extension at once reveals the artificial character of normal finance. It has been pointed out at some length, and probably sufficiently, that the Gold Standard, on which British finance was supposed to be based, broke down within a few hours of the outbreak of war. That is important; but it is only the first step, just as the Gold Standard itself is only one aspect of a system of finance in which currency is the basis of credit. What is more fundamentally important, is to observe that immediately production is expanded at (135) anything like its possible rate, the idea that the financial costs of that expansion can be recovered in prices is seen in its

full absurdity.

It will be understood that by far the major portion of the muniments of war (including not only warlike weapons and munitions, but the million articles required by the supply services of the armies engaged) were produced by so-called private undertakings, and paid for by the Government. Now, the normal method by which a Government obtains the money wherewith to pay for its purchases, is by taxation, and a balanced Budget means that the proceeds from taxation at least cover the expenditure on public services. Under these conditions, costs and profits of production are recovered by the Governments (through the medium of taxation) in prices; that amount of taxation which is represented by the supply services, representing the price of the goods delivered to the Government with all costs included.

The National Debt rose between August 1914 and December 1919 from about six hundred and sixty millions sterling, to about seven thousand seven hundred millions sterling. And this rise represents, on the whole, the expenditure over that period which it was deemed impracticable to recover in current taxation. That (136) is to say, if we take the average taxation for supply purposes over that period 1914-1918, as being about three hundred millions per annum, the amount paid by the public as consumer for the goods and services supplied to it for war purposes, was about thirteen hundred and fifty millions, and the financial cost of those goods and services was about eight thousand three hundred and fifty millions, a ratio of cost to price of about roughly 1 : 6.2 . In other words, goods were sold to the public at one-sixth of their apparent financial cost, and no one lost any money over it at the time. How was this done?

A considerable amount of this money (some of which may be in excess of the figures just mentioned) was created through what are known as the Ways and Means Accounts, and the working of this is described in the first report of the Committee on Currency and Foreign Exchanges, 1918, page two. Paraphrased, the process may be shortly explained as follows.

If ten million pounds credit is advanced at the Bank of England to the credit of Public (*i.e.* State) Deposits (which simply involves the writing up of the Public Deposits account by this amount), this amount is paid out by the Spending Departments to contractors in pay- (137) ment for their services, and when the cheques are cleared, passes to the credit of the contractors' bankers (joint Stock Banks) account with the Bank of England. The joint Stock Banks are accustomed to regard their credits with the Bank of England as cash at call and, therefore, ten million pounds is credited to the depositors of the Joint Stock Banks, and ten million pounds to the Joint Stock Banks' cash account.

As a result of this, the joint Stock Banks, working on a ratio of one to four between so-called cash and short-date liabilities, are able to allow their customers (working on Government contracts) overdrafts to the extent of forty millions, a portion of which their customers may devote to taking up Treasury Bills or War. Loans. The banks themselves may take up about eight millions of Treasury Bills or War Loan, out of their additional "deposit" balances, or they may lend about eight millions to the Bank of England to lend

to the Government. Eventually, the result is the same, namely that the Government owes forty millions to the banks, through the Bank of England.

Now the first point to notice is that the result of this complicated process is exactly the same as if the Government itself had provided forty (138) millions, in Currency Notes, with the important exception that the public pays 4 or 5 per cent per annum on the forty millions, instead of merely paying the cost of printing the Currency Notes. The effect on prices, while the forty millions is outstanding, is the same, and the contractors pay 6 or 7 per cent for their overdrafts instead of getting the use of the money, free. But if the forty millions is redeemed through taxation, or a Capital Levy, the public pays not only the 5 per cent per annum, together with the contractor's 6 or 7 per cent, plus a profit on both of them, but it pays the whole of the forty millions out of money which has been received in respect of wages, salaries, and dividends. So far as I am aware, no one has ever suggested that Currency Notes should be retired by taxation. It is true that when this forty millions has been repaid, both the original debt and the repayment cancel each other, and only the interest charges go to the Profit and Loss Account of the Bank. But since, as we have seen, the repayment of bank loans means the immobilisation of an equivalent amount of price-values, this only means that a fresh loan with fresh interest charges has to be created. A consideration of these facts will make it easy to understand the implacable opposition of (139) bankers and financiers to Government paper money and their insistence on the importance of what they term redemption. The payment in current taxation of only one-sixth of the price of war stores, etc., meant, therefore, that a credit grant of the other five-sixths of the price was made to the Public. *The repayment of this credit is only justifiable on the assumption that banks own Public Credit.*

The average banker, if confronted with the foregoing statements, would, while being obliged to admit the facts, probably say, "Yes, but printing paper money has no finality. Once you begin, you have to go on." Without admitting his contention, let us see what is his alternative.

Since bank loans create bank deposits, it will be seen without difficulty that the process which has just been described would either produce a fantastic array of depositors' accounts, or else would necessitate the calling in of such large amounts of overdrafts as would make it impossible for the manufacturer to carry on his business. It therefore became necessary to fund these unwieldy sums. That is to say, to convert them from something which will operate as currency into "Capital Securities," the interest only of which will operate as currency; and it (140) will still be fresh in the memory, that every inducement, including loans up to 80 per cent of the face-value, was offered by the banks to their depositors, to convert such deposits into Government Stocks of various descriptions. The result of this was to convert a large portion of their unsecured overdrafts into loans against Government security. Observe what happened. The Government loans, 80 per cent of the value of which originally represented nothing but bank overdrafts created by a stroke of the pen, were held by the banks as security for this same overdraft. At the close of the War, or rather about a year after the close of the War, the banks began to call in these overdrafts. Had they called in the whole of them, there would have been no money in the country except the four hundred millions of legal

tender, most of it already in the banks. As a consequence of the partial extinction of existing credits, and the reduction in the rate of issue of new credits, Government Stocks of all descriptions were thrown upon the market, to obtain money wherewith to meet the bankers' calls. Their value declined until the margin of their market price over the amount which had been lent upon them had disappeared, and, as a result, the stocks came into the hand of the banks; so (141) that it is probably true to say that 90 per cent of the holdings of Government War Securities were under the ownership or complete lien of the banks and financial houses by about the middle of 1922. From this time on, a process of reselling these stocks to the public at enhanced prices began, fostered by the stagnation of trade, which forced any available money in the country into fixed interest-bearing securities. Owing to the comparatively small amount of money available for this purpose, and the fact that a large amount of Government Stock was acquired by the direct creation of bank credits on bank account, it is probable that even yet 75 per cent of the total issue of Government Securities is still in the hands of the banks,\* or is held by them under a lien; sufficient only being in individual hands to ensure the protection of the loan as a whole. The net result of the process, is that the public pays the sum of three hundred and twenty-six millions sterling per annum as interest on an immobilised loan of which it has not the use as

\*At the time the first edition of this volume went to Press, the absorption of the Guernsey Bank by the National Provincial Bank was announced. For each £10 paid share of the Guernsey Bank two £5 National Provincial shares and £18 in 5 per cent. War Loan was given. (142)

money, but which it has to repay in the form of sinking fund. Such sinking fund must either be collected out of the costs distributed in respect of future production, the public being thus further prevented from purchasing home-produced goods, or by the creation of a fresh debt in an open or disguised form.

The beauty of the transaction, however, is only seen in its entirety when it is recognised that the repayment of the loan, either by taxation or otherwise, unlike the repayment of the costless book-credit which originally created it, does not mean its extinction, but merely its re-transformation into the form of purchasing-power, since the sinking fund represents a cash payment to the holders of the loan in return for their securities. The public will therefore pay the interest and sinking fund for the term of the loans in order to get back the use of their money—and as the banks would be likely to hold most of the loan, the latter would get the money. In the third part of this book it will be necessary to consider the question of the beneficial ownership of financial credit; and a grasp of the results of the present method of operating the credit system as indicated by the financial operations of the past few years, is necessary for that purpose. (143)

It may be asked why banks only pay a dividend of 25 per cent or so. The answer is simple.

Their real earnings are measured by the control over industry which they acquire—earnings so rapid that in a few years the control will be absolute, if not checked. The

amount distributed in dividends is, or could be, any desired dividend on this capital control. (144)

## CHAPTER VI

### TAXATION AND SERVITUDE

IN a remarkable document which received some publicity some years ago, under the title of "The Protocols of the Learned Elders of Zion," a Machiavellian scheme for the enslavement of the world was outlined. The authenticity of this document is a matter of little importance; what is interesting about it, is the fidelity with which the methods by which such enslavement might be brought about can be seen reflected in the facts of everyday experience.

It was explained in that treatise that the financial system was the agency most suitable for such a purpose; the inculcation of a false democracy was recommended; vindictive penalties for infringements of laws were advised; the Great War and the methods by which it might be brought about were predicted at least twenty years before the event; the imposition of (146) grinding taxation, more especially directed against Real Estate owners, was specifically explained as essential to the furtherance of the scheme. The methods by which the spurious democratic machinery and the journalistic organs of "Public" opinion could be enlisted on the side of such taxation, and an antagonism between the interests of the town and the interests of the country could be created, were explained with an accuracy of detail which can only be described as Satanic.

It is quite possible that this document is inductive rather than deductive in origin, that is to say, that some person of great but perverted talents, with a sufficient grasp of the existing social mechanism, saw and exploited the automatic results of it. If that be the case, the world owes a debt of gratitude to that mysterious author. He was substantially accurate in his generalised facts, and the inductive prophecies from them are moving rapidly towards fulfilment.

Making all due allowances for the defects in it which are only too obvious, the Anglo-Saxon character probably remains the greatest bulwark against tyranny that exists in the world to-day. That is a thesis on which a large number of volumes have been written, and it does (147) not seem necessary to expand it further. But if it be granted, it will be agreed that any attempt, either conscious or unconscious, to establish an effective hegemony over the whole of the world would be likely to concentrate on such methods as would paralyse the Anglo-Saxon.

Now, the British population, men, women, and children, are at the present time (1933) taxed to the figure of sixteen pounds seven shillings per head (or about sixty-five pounds per family), which is nearly three times the taxation per head of any other country in the world. Large estates are subject to succession and legacy duties which make it impossible for them to remain in private hands, and force them into the market in which they are



acquired by corporations having access to the methods of creating financial credit. These two forms of taxation are concurrent, *i.e.* the enormous Capital Levy imposed by Succession and Legacy Duties, *so far from reducing general taxation, has been accompanied by a steady rise in such taxation.* In the United States the estimated value of all real and personal property (1923) is two hundred thousand million dollars. The bonded debt, public and private, *payable in gold* is one hundred and twenty thousand million dollars, and it is estimated that the total time (148) for interest and taxation to reach such proportions as will require the whole equity value of the United States to be mortgaged to meet it, is about twenty years. It is perhaps hardly necessary to mention that the bonded debt of the United States is held by very much the same class of financial organisation as that which is the chief owner of the bonded debt of Great Britain. The banks and financial houses are our creditors; and Capital Levies in reduction of debt are merely levies for the benefit of these institutions and enhance the attractions of the country paying them, as debt-contractors.

The portion of this taxation which is represented by interest on public debts, created more or less in the manner outlined in the previous chapter, is onerous in proportion as its destination is centralised. It is easy enough to see that it would not matter very much if the Debt of Great Britain were ten times what it is, even though the service or payment of that Debt were made on "orthodox" principles if the ownership of the Debt was uniformly distributed over the tax-paying population. Sixty-five pounds per annum per family would be collected in taxes, and (disregarding the cost of administration) the sixty-five (149) pounds per annum would be distributed as dividends. The operation would, in fact, be meaningless, from which observation we may deduce the interesting fact that present-day finance and taxation is merely an ingenious system for concentrating financial power. No proposal to *redistribute the National Debt has ever received the slightest encouragement from Socialist leaders.*

Now at first sight this would appear to lend colour to the simple Labour-Socialist idea that many men are poor, *because* a few are rich. *Post hoc, ergo propter hoc.* But once again, the matter is not quite so simple. It is perfectly true that a few men do become very rich by this process, and very many more have hopes of riches; that is how their co-operation is secured. But it is also equally true that their collective riches, in visible form, would represent a very small sum if equally distributed amongst the general population. The main tendency of the process is to concentrate the control of credit in a potential form in great organisations, and notably in the hands of the great banks and insurance companies.

It is well worthy of notice that the proposal for a Capital Levy, which was one of the main planks in the programme of the British Labour- (150) Socialist Party, was for a levy *on individuals, not on corporations or businesses.*

Apart from any more subtle explanation, even great banks hesitate to distribute their true profits for fear of attracting too much attention. It is an interesting and symbolical fact that every corner site, whether in town or village, sooner or later, falls into the hands of a bank. Corner sites are potential key positions. It may be stressing the theory a little too

far, to use it as an explanation of the fact that a recently built bank in Cleveland, U.S.A., has been designed with bomb-proof walls, and has machine-guns mounted at each corner of it. A polite intimation that his overdraft must be reduced, is a more effective argument to the average man than a threat by a machine-gun. But the idea is no doubt not dissimilar.

An organisation can only grow powerful at the expense of those involved in it, just as a tree can only grow at the expense of its soil. Corner sites, granite and marble buildings, to name only two of the more tangible signs of growth in the banking organisation, represent undistributed profits. Undistributed profits are simply cancelled credits; they are "savings" by an institution. They are credits transformed from a visible form represented by deposits, (151) into a potential form such as, for instance, the security for loans or mortgages. Every credit cancelled in this way, whatever form the cancellation may take, simply represents so much purchasing-power destroyed without the destruction to an equivalent amount in book price values, and the effect of it is that its equivalent amount in goods-values cannot be bought in one and the same credit area. It will be seen, therefore, that this concentration of securities in the hands of large organisations is a matter of much greater importance, than if even the same concentration took place in the hands of individuals who, in one way or another, disbursed the large sums thus received, since the disbursements would, in the nature of things, be spread over a very wide field of activity. But a functional organisation like a bank is only interested in consolidating the power and importance of banking, and uses the credit power that it obtains with the single aim of fostering this result. That is why we are building branch banks and other industrial buildings, instead of houses, and why such houses as are built are mostly cheap and nasty. There is not much granite and marble about the average post-war bungalow or cottage.

But however that may be, one result of the (152) process is indisputable. It still further restricts the money and purchasing-power at the disposal of individuals, and concentrates this money power in financial institutions. If the process is allowed to proceed without interruption, and it remains true that the possession of money is the only claim to the necessaries of life, then it is not difficult to see that within a short space of time, that condition of universal slavery to which the writer of "The Protocols of Zion" looked forward with such exultation, will be an accomplished fact.

The concentration of control over business firms, which is the accompaniment of the increasing dependence of the business world upon banking accommodation, is paralleled by the rapid elimination of a class of any considerable dimensions which can maintain its customary standard of life without commercial employment. Both commercial employer and commercial employed are therefore coming under an invisible control which is not subject to any criticism of its actions in respect to the giving or withholding of this "employment" without which civilised existence is becoming impossible. The obsolete system of chattel slavery had the vital defect that the slave could not fail to be conscious of his slavery, and consequently (153) required guarding. But the more insidious subjection with which we are threatened, promises a condition of affairs in which

servitude will only be granted as a privilege, and starvation following on degradation will be the alternative. (154)

## CHAPTER VII

### THE BID FOR WORLD POWER

TAKING into consideration the fact that all business is at present carried on with the express purpose of "making money," it might be imagined that even if the details of the money system were not matters of general knowledge, at any rate there would be little room left for discussion in regard to its main principles. But there is not even elementary consistency and agreement on the subject. One of the more obvious examples of this is the confusion which is in evidence in regard to matters of foreign exchange, and War Reparations.

It will be remembered that we are constantly being told that Great Britain, in particular, lives on exports of goods and services. In orthodox circles there is never any discussion in regard to this statement. It is regarded as axiomatic. It is how we become "rich." On the other hand, as a result of the determination to inflict punishment of all descriptions upon Germany for her crime of losing the War, and (156) to reward other countries for their virtue in winning it, severe economic penalties were imposed by the Treaty of Versailles. These penalties were assessed principally in terms of currency. It is common knowledge that these penalties, generally referred to as reparations, have not so far been successfully inflicted. Germany has herself expressed her willingness to pay; France in particular amongst her opponents has expressed her determination to make Germany pay. Germany has printed large quantities of paper money and has also incidentally greatly expanded her economic ability to produce, and thus, it might be imagined, to pay, but the payment has not taken place. The reason for this is quite simple, and has been explained in many orthodox quarters. Such payment can only take place by the export of German goods and services in return for a pledging of German credit based on the ability to deliver these goods and services. Notice the grim humour of the situation. At one and the same time and from one and the same source, it is being stated that Great Britain can only become rich by exporting goods and services. Germany, however, can only be penalised and presumably become poorer by exporting goods and services. A (157) science of finance and economics which will permit absurdities of this description to pass almost unnoticed, can hardly fail to produce chaos in the world. The country on which the "penalty" of reparations was inflicted is straining every nerve and sinew, not merely to export an amount equivalent to the money figure attached to the reparations, but to add to this amount by every means in her power. Great Britain, which was one of the nations very vocal in asserting that Germany must pay, is feverishly searching for methods either by tariffs or otherwise, which will prevent German goods, which are by common consent the only method by which Germany can pay, from entering this country, and is providing Germany with credits—in order that she may *import* British coal.

There must be in every country, a sufficient, if small, minority of persons who see these

absurdities and understand that they proceed, and can only proceed, from a radically defective or obsolete financial system. It can only be assumed that the silence of such persons is either dictated by fear of the results of a general exposure, or by complicity in the policy which is furthered by the existing situation.

Considered merely from the point of view of financial operations, and without trespassing on (158) the domain of world policy, it is not difficult to see that every advantage to finance, as a business, lies in rendering the Reparations Clauses of the Treaty of Versailles ineffective. To a financier, a country is simply something on which to base a mortgage. Just as a private estate which is not mortgaged is, to a money-lender, an excrescence on the landscape, so a country whose National Debt is not as large as is consistent with security is an object of solicitude to International Finance. If Germany's productive capacity for the next twenty years or so were effectively hypothecated to the service of the allies who were engaged against her in the late war, it is fairly obvious that she would not be good security for loans.

For this reason, if for no other, the efforts of the financial interests are likely to be directed to obstructing the payment of reparations, and finally to the cancellation of the obligation to pay them - a state of affairs which in the existing financial arrangements would no doubt be signalled by the grant of an "international" loan to Germany for a reconstruction of which, by all accounts, she is in no need.\*

If this line of argument be accepted, it will

\* This paragraph was written in 1923. It has been justified in detail by events.—Note to Revised Edition. (159)

no doubt occur to the reader that the insistence by the United States on the payment of the British Debt to America would seem to furnish a contradiction. It must be remembered, however, that it was necessary for someone to pay war debts, or the repayment of Financial Debt would be gravely discredited, and that the U.S. Government has so hedged round the repayment of the sums borrowed, as to make the British Debt merely a political weapon for the control of British policy. Further, it is to be remembered that the financial system is a centralising system; it can only have one logical end, and that is a world dictatorship. There seems to be little doubt that the temporary headquarters of this potential world dictatorship have been moved from country to country several times during the past five or six centuries. At one time it was in Italy and specifically in Genoa, then in the Low Countries and Lombardy, from whence came the Jewish Lombards who gave their name to Lombard Street. During the eighteenth and nineteenth centuries it has unquestionably been in London, but there is every indication that a change of headquarters to New York is contemplated. The financial and economic crippling of Great Britain, which under existing methods of finance would (160) be the result of the payment of a sum of £1,300,000,000, carried out by the process of purchasing American dollars or State Securities and cancelling them, would be a logical and necessary step to what is hoped will be the establishment of a final and indisputable Regency of the world.

We may therefore expect to see a greater diplomacy in operation, having as its objective

the psychological, political, and military isolation of Great Britain contemporaneously with the economic and industrial emasculation which is at present proceeding. By forcing a policy of deflation on Great Britain, while at the same time pursuing a policy of inflation, the powers operating through the United States Political and Financial Government have, during the years 1918-1930, succeeded in destroying, to a considerable extent, the immense increase in productive and fighting power which existed at the time of the Armistice. A continual drain of the most skilled mechanics from this country to America has been the result of the immense disparity between the wages paid in the two countries during the same period of time. No pressure has been applied from Washington or Wall Street to secure a repayment of the indebtedness of any country other than Great Britain; (161) and, as a result, the onus of unpopularity has shifted to London in view of the impossibility of meeting American indebtedness without collecting the sums due from continental countries.

In short, it is impossible to doubt that the bid for world control, which emerged into the open in 1914, and was temporarily foiled in 1918, has merely shifted from Berlin to Washington and New York, and that the apparently better relations which exist between this country and America can only be attributed to a decision that effective resistance to the fresh attempt is for the moment impossible. The promptness with which any suggestion of departure from the imposed financial and fiscal policy has been followed by a severe fall in the sterling exchange on New York is, I think, sufficient evidence that the somewhat contemptuous friendliness which subsists in regard to Anglo-American relations at the present time can, and will be, replaced by unrelenting severity at any moment that British policy appears to run contrary to that of her creditors.

Just as, in the main, the mass of Germans were merely passive tools in the policy which resulted in the first Great European War, so it is no doubt true that the American people, as individuals, would repudiate personal complicity (162) in any similar plans. If it is true, as seems probable, that effective resistance to an imposed group policy is nearly impossible so long as the group has control of the credit of the individuals composing it, it is beside the point to pay serious attention to such a factor. The only line of action which can be effective in the emergency with which the world is confronted must be one which can paralyse or break up the group control of credit to which the majority of individuals in every country have become helpless slaves; and it is not without interest that the antagonism between the American people and the United States Government is crystallizing into an attack on the mutual support given to each other by the interests symbolised by Wall Street and Washington. (163)

## **PART III: THE DESIGN OF ECONOMIC FREEDOM**

### **CHAPTER I**

#### **THE STRATEGY OF REFORM**

"In Europe we know that an age is dying. Here in America it would be easy to miss the signs of coming

change, but I have little doubt that it will come. A realisation of the aimlessness of life lived to labour and to die, having achieved nothing but avoided starvation, and of the birth of children, also doomed to the weary treadmill, had seized the minds of millions. "—SIR AUCKLAND GEDDES. (167)

IN considering the design, either of a mechanism or of an undertaking, it is first of all necessary to have a specific and well-defined objective, and, after that, a knowledge not only of the methods by which that objective can be obtained, but also of the nature and treatment of the forces which will be involved, the materials available, and their reaction to those forces.

The decision of objectives is the domain of policy. The decision of methods is technics, and the carrying out of those methods is technique. With the latter two the general public can have nothing to do, and therefore the submission of detailed schemes to the consideration of the public is a mistake where it is possible to avoid that course. It is a sound proceeding to submit a proposal to make a railway between A and B to the public as such; but to submit the engineering details of construction to the same general criticism would be absurd. (168)

We have seen in the preceding pages that there is a definite policy in operation in the world at the present time, and that policy is being supported from sources which seem superficially antagonistic. This policy, for want of a better term, can be described as the "Moral" or Classical policy; its mechanism is the mechanism of rewards and punishments; and its inevitable corollary is limitation—inhibition.

Denunciation of this policy in the abstract is beside the point; while natural, it is an attitude of mind not very dangerous to the system criticised. The point on which it is necessary to concentrate is that, whether or not this system has been the best method by which humanity could be brought to the point which it has now reached, a state of affairs has arisen out of it which is not merely intolerable in the abstract, but which in fact the modern man and woman will not tolerate. A policy which the majority of individuals concerned will not tolerate is a bad policy from a practical point of view. If it be objected that there is, in fact, no other policy operative in the world to-day, the only short answer which can be made is "Look at the world today"

The classical ideal is an imposed ideal. It is authoritarian, However hopeless at the (169) moment may seem the alternative, there will, I believe, be nothing but strife and distress in the world until an imposed *policy* is replaced by an agreed *policy*.

It has already been suggested that the chief aim of persons who may be regarded as executives of the Classical Policy is to avoid as far as possible any discussion on the policy itself and to direct public attention to a profitless wrangle in regard to methods. In Great Britain, Conservatives advocate the raising of prices by means of tariffs; Liberals advocate the lowering of purchasing-power by means of increased Death Duties and Insurance Schemes; Labour, the strangulation of individual initiative by means of nationalisation or a Capital Levy. The choice offered to the free and enlightened elector is



between being hanged, boiled in oil, or being shot. In the United States every effort is made to rivet the attention of the public on tariffs or Prohibition, while crisis succeeds crisis, and the mortgagee grips the land with ever greater tenacity.

In this world it is action which counts. The only sense in which the phrase "Right is stronger than Might" is anything but pernicious nonsense is that, in the last event, might depends on the actions of individuals, and if it is (170) possible to affect the actions of individuals by something which we call "Right," "Might" and "Right" may eventually be found on the same side.

Now, we never get mass action out of altruism. Altruism is an occasional characteristic of individuals, never of mobs. It is part of the miasma of propaganda with which the world is flooded at the present time to pretend that such mass action as the entrance of Great Britain or America or France or any other nation into the Great War proceeded from altruistic motives. It is perhaps hardly necessary to stress the point that this was not so, but it is not without practical use to consider the methods by which mass action was attained.

Passing over the causes which induced, for instance, Great Britain as a nation to declare war against Germany, because very few persons would accuse nations of altruism, the first result of that declaration was an order to Regular Troops to proceed overseas. No altruism entered into the obedience to this order; mutiny would have been punishable by death. It is not unfair to say that the original means by which this Regular Force was enrolled was by the offer of a stable economic future, combined with an interesting career. (171)

Subsequent to the departure of the regular army, volunteers were called for. Amongst these volunteers were most unquestionably numbers of people actuated by great devotion to patriotic ideals. But it would be erroneous and misleading to say that these were in anything but a small minority. Love of excitement, pressure of public opinion, hopes of glory and advancement, fear of invasion, and by no means least, the very attractive financial terms which were offered, all played their part. The Derby Scheme by which the population was divided into categories was a remarkable example of enlisting a majority to coerce successive minorities. When finally these failed, the residue, by this time reduced to impotence, were compelled by conscription and by stark threats of punishment to join those who had been captured by more ingenious methods.

There was an exact parallel to this method of procedure in the proposal put forward in 1922 by the Labour Party, for a Capital Levy on fortunes over £5000. The minority is first penalised; and the majority is subsequently to be enslaved in successive batches.

As a result of the consideration of the care with which the financial and legal organisation (172) of the world has been perfected and has entrenched itself, it seems difficult to avoid the conclusion that when the milder methods, and the ability to manipulate public opinion, no longer function, the mask will be thrown aside and stark compulsion will be ruthlessly invoked. That is already happening in portions of the Middle West of America,

where strikes are indistinguishable from minor military engagements; and much the same phenomena are observable in Germany. The "castor oil" methods of the Italian Fascisti were similar. The British Government representative on the Board of our only aeroplane company is, by a curious coincidence, the President of the Bankers' Institute. All this is important in considering the emphasis to be laid upon such questions as to whether the attainment of reform by political, that is to say, Parliamentary methods, or whether some variant of the "Direct Action" principle is the only possible path to effective change. There need be very little doubt that the forces of the State could all be applied to enforce a Capital Levy or the nationalisation of mines. Would those forces function to enforce a modification of the powers of banks and the methods by which the credit system is operated? The derisory results obtained in regard to the very modest efforts to (173) interfere with the price system during 1917-1918 lead one to doubt it.

Assuming for the moment, however, the comforting assumption that the will of the people, as expressed by their votes, must prevail, there is no doubt that the defeat of the power of political caucuses to draw up the agenda of an election is the immediate objective. The exact method by which to attain this end is immaterial so long as it is attained. The invalidation of an election, if less than 50 per cent of the electorate voted on the issues submitted to them, would be as good a method as any other. The recognition of the danger to the Hidden Government which is contained in some such procedure is no doubt responsible for the proposal (and in, certain areas, the Law) constituting abstention from voting a penal offence.

It would then be necessary to obtain a straight vote on major questions of policy. This does not seem to present insuperable obstacles. There seems to be no fundamental reason why an election should not be held on an issue as "Do you want employment, or do you want goods?" From this point, however, progress would appear difficult. The power of appointing members of committees—in short, the (174) power of patronage—is a jealously guarded asset. Short of holding an interminable series of elections, both on personnel and terms of reference, it is difficult to see how any effective check could be exercised over a determined and organised obstruction and misdirection of public attention such as is certain to be exercised by the interests attacked.

This superficial examination of the situation may be sufficient to indicate the unsuitability of Parliamentary machinery as an agency with which to deal with the issues involved. Let us, therefore, return to the springs of action in individuals. There is, doubtless, a certain small number of individuals whose interests are indissolubly wedded to the present economic and social system. The essence of their attachment to it is the fact that it places them in positions of enormous, if frequently hidden, power, and this power, far more than any material reward, is the object of their concern. These individuals are not amenable to any argument other than *force majeure*.

Now it is quite incontestable that the power of money is by far the greatest power which is wielded by this small minority of persons. The power to reward and punish, which is the power that they prize, is almost solely due to the fact (175) that most people in the world want money, and most people in the world cannot get it, except eventually by the

acquiescence of those in executive control of the Financial System. By this power of money, this small minority can obtain the assistance of the majority, and thus retain the determinant of force.

Taking the situation as a whole, therefore, it seems indisputable that sooner or later this monopoly of money power has to be attacked; that for reasons already explained, it is not being attacked now, and that taxation, so far from attacking it, enormously strengthens and consolidates its power; that until it is attacked, and successfully attacked, it can, by bribes under various disguises, always retain a majority. By the aid of this majority it can defeat an antagonistic minority, quite irrespective of whether that minority is "right" or otherwise, and the only method by which the minority can ensure that right is might, is by obtaining the control of those inducements which do, in fact, ensure mass action. This means, I think, that if we regard the distribution of money power to all individuals, in opposition in the present tendency to concentrate it in group-organisations, as the first aim of economic freedom, we are (176) driven to a somewhat hackneyed conclusion—that the means and the end are in this case identical. We can only defeat money power with money power. (177)

## CHAPTER II

### SOUND MONEY

IF we clear away from our minds all the over-growth with which our conception of the industrial system is obscured, one fact seems to emerge clearly. The primary inducement by which the co-operation of the great majority of persons is obtained is through the necessity of "getting a living." That is to say, the first policy of an industrial system which would obtain the unhesitating acquiescence of the majority, is that it should deliver the goods and services that they require with the minimum amount of trouble to everybody. Not only is it indisputable that the industrial system does not do this at the present time, but it is not even publicly contended that this is its object. As a system, it is only considered to be open to criticism when it fails to provide full employment for everyone.

So far as the generally accepted methods of (180) democracy are adaptable to the situation, there is no shadow of doubt that the first and most important task of the majority is to vote on this single issue. And the first task for any executive, genuinely empowered by the majority to serve its best interests, is to devise means by which the desires of the majority can be given effective embodiment.

At this point it is valuable to recognise the parallelism which exists between the attributes of a political majority, on the one hand, and the economic consumer, and the political minority, on the other hand, and the economic producer. Just as a political majority is likely to be right on a matter which truly comes within the domain of policy, but is very probably wrong in its ideas as to how that policy can be made effective, so, conversely, it is undoubtedly true that the industrial technician (the "intelligent minority") is very apt to hold distorted views on the objective of the producing process in which he is so keenly

interested; while being unquestionably the right and proper person to decide on the technique to be applied to a given programme of production. The parallelism extends with sufficient completeness to the proper relationship between the consumer (the "majority") and the programme of production, the (181) consumer being only legitimately interested in results.

It is also vital to notice that, so far from these relationships being in any sense theoretical, they are so automatic and inherent that they exist in a definite form in the world to-day. In spite of all the agitation for what has been called workers' control of industry (an agitation which has been pressed forward in every part of the world) such a thing has never been in effective operation, for the reason that it is against the nature of things. Finance directs, and always has directed, the programme of production. Finance is the technique of credit; and the origin of credit (though not the whole basis of credit) should be the consumer. "Workers' Committees," Soviets, and so forth, are crude credit-distribution societies, whose working is inferior as such to that of the orthodox bank. It is possible to remove every factor from the industrial system, except effective demand, and some sort of industrial system, however primitive in kind (even to the extent of digging for roots and climbing for fruit), will remain; but take away the desire, the need or the belief in the ability to consume, and not a seed will be planted nor a tool employed. It is not for lack of technical ability, (182) but for lack of effective demand, that civilisation today stands on the brink of irremediable catastrophe.

There is, therefore, no room for doctrinaire theorising in regard to the "aims of industry"; the trouble about industry is not that its aims are wrong, but that it fails to achieve them. And it fails to achieve them for a simple reason—the individual is divorced from the credit which is his, and, in consequence, does not duly function as a consumer. It is only necessary to recognise the natural relationships which underlie any sort of functioning of an economic society. If we recognise and admit these relationships, and make our arrangements accordingly, we have a machine which is designed to work in accordance with the only forces which are available to work economic machines, and the result is smoothness and efficiency. If we refuse to recognise these forces, or pretend that they have a direction which is contrary to the facts, or clamour for a change in their nature (a "change of heart"), we are likely to get an economic machine which is about as successful as would be a plough if installed for the purpose of driving an Atlantic liner. We are in the position of a would-be engineer who refuses to accept the principles of thermodynamics, and, (183) instead of endeavouring to improve the steam engine, tries to alter the properties of steam.

The financial relationships which correspond to these principles are fundamentally simple. The credit power which is based on the demand of the community as a whole for goods and services can only be effectively directed in detail by trained technicians, using that description, in the words of the Labour Party, "to include workers by hand and brain." But just as it is in the nature of things that ownership and finance are indissoluble, so, while emphasising the sphere of the technician in production, it is equally certain that his *product* belongs not to himself, but to the community from which he derives his financial energy. It is the business of the scientist, the designer, and the inventor, to place

before the individuals who compose the public the achievements which are considered possible. It is the business of the public to say in what quantity and in what priority it considers those achievements desirable, and it is the business of the producer, in the general sense of the term, to act in accordance with the verdict, and to hand over the product to the general public—the consumer—of whom alike the producer and the inventor are a part. That is practically what happens at (184) present, with the vital exception that the order system which connects the individual with the producer does not function; whether by accident or design is largely immaterial.

One method by which it is possible to visualise in a familiar form the embodiment of such a set of relationships is in the conception of, let us say, Great Britain, Limited. If we imagine a country to be organised in such a way that the whole of its natural born inhabitants are interested in it in their capacity as shareholders, holding the ordinary stock, which is inalienable and unsaleable, and such ordinary stock carries with it a dividend which collectively will purchase the whole of its products in excess of those required for the maintenance of the "producing" population, and whose appreciation in capital value (or dividend-earning capacity) is a direct function of the appreciation in the real credit of the community, we have a model, though not necessarily a very detailed model, of the relationships outlined. Under such conditions every individual would be possessed of purchasing-power which would be the reflection of his position as a "tenant-for-life" of the benefits of the cultural heritage handed down from generation to generation. Every individual would be vitally interested in that her- (185) itage, and his clear interest would be to preserve and to enhance it. Contemporaneously with this, he might also be a "producer," and although it is probable that the money incentive in the form of wages could be made small in comparison with the dividends he would receive as a shareholder, the relation between these two forms of effective demand offers a flexible method of transition from the existing arrangements. It will be obvious that such a set of relationships does not impinge on what is commonly called the rights of property, so long as these rights are "consumers' " rights. It renders each individual immune from economic penalisation for his personal views, and thus forms the only effective bulwark against tyranny, and it places the underlying facts of co-operative production in a light in which they can be seen and grasped by the most modest intelligence. Under such an arrangement, wages and salaries become what they are in fact at present - merely a credit grant against future production, and a measure of the *human* energy put into production. This credit grant would be cancelled by the writing down of the national assets to an extent represented by the sum of wages and salaries, the assumption being, of course, that the wages and (186) salaries represent the consumption of goods over a given period which have to be debited against the production of the same period. The dividend which is declared over the equivalent period represents the division of the difference between actual consumption and actual production (both of actual products and production capacity) over the same period.

Pursuing this line of reasoning, it is not difficult to see that in the modern world a workable financial system is far more in the nature of an accounting and order system than an exchange system.

When each man ploughed, sowed, and reaped his own harvest it was a reasonable argument both ethically and pragmatically that what he produced was his own to be used or exchanged for other products, as he saw fit. In this exchange process the use of tokens was an obvious development. Our word "pecuniary" (Latin, *pecus*, cattle), no doubt derives from the practice of using leather discs to represent a cow or a horse. The owner of the animal parted with the disc in return for suitable consideration, and when convenient the holder of the disc presented it and obtained delivery of the property. It is of importance to realise in this connection that (a) The owner of the cattle and the original (187) issuer of the money were the same individual; (b) To the extent that the system was in use, it was obviously its intention that production of goods and production of monetary units should keep in step—that each unit of real property should be represented by an equivalent unit of money and the destruction (or final delivery by its original owner) of a unit of real property would consequently involve the cancellation of the equivalent monetary unit, or its re-issue by a new owner.

It is easy to conceive that a simple monetary system of this nature would be an immense convenience to a pastoral community limited both in numbers and in the variety of its property, but that abuses (probably forgery and inflation) would grow as the system was enlarged and modified to meet a civilisation of greater complexity. These abuses would naturally produce a group of experts to deal with them and at once the general outlines of a nascent banking and credit system become evident. The transfer of the right to issue money from the property owner himself to a group of specialists alleged to be acting on his behalf would be an easy step.

Now, as emphasised in Chapter V, the factor transcending all others in importance in the (188) modern world is the cultural inheritance by the aid of which wealth in practically unlimited quantity can be produced by a small and diminishing amount of human labour. In order that a financial system may work in accordance with the necessities of the conception on which money rests fundamentally it is necessary :

(a) That the money equivalent of this property shall arise from and vest in the owners of the property.

(b) That it shall increase only as this property increases and decrease only as it decreases.

(c) That the relationship established between a unit of property and the money unit representing it shall be maintained.

The original conception of the classical economist that wealth arises from the interaction of three factors—land, labour, and capital, was a materialistic conception which did not contemplate and, in fact, did not need to contemplate, the preponderating importance which intangible factors have assumed in the productive process of the modern world. The cultural inheritance, and what may be called the "unearned increment of association" probably include most of these factors, and they represent not only the major factor in the production of (189) wealth, but a factor which is increasing in importance so rapidly that the other factors are becoming negligible in comparison.



It is both pragmatically and ethically undeniable that the ownership of these intangible factors vests in the members of the living community, without distinction, as tenants-for-life. Ethically, because it is an inheritance from the labours of past generations of scientists, organisers, and administrators, and pragmatically because the denial of its communal character sets in motion disruptive forces, threatening, as at the present time, its destruction. If this point of view be admitted, and I find it difficult to believe that anyone who will consider the matter from an unprejudiced point of view can deny it, it seems clear that the money equivalent of this property, which is so important a factor in production, vests in and arises from the individuals who are the tenants-for-life of it.

The question of its net increase is also beyond reasonable question. Every scientific invention and discovery, besides forming a real asset in itself and being essentially an addition to the assets of civilisation, reacts on other assets in a manner which automatically increases their value, just as the addition of a new subscriber to (190) a telephone exchange automatically increases the value of the telephone system to the existing subscribers by giving each one of them an additional line of communication. This factor, probably far more than the material assets of civilisation forms the basis of its real and growing store of wealth. To be set against this, is merely the depreciation and obsolescence of material assets, including consumption goods, and it is beyond question that on balance the yearly appreciation of wealth is greatly in excess of depreciation.

The relationship of money issued, to the goods against which it is issued, is completely maintained if prices are in the first place related to costs, and the value of the unit in which costs and prices are computed is consistently related to the changing ratio between production and consumption. This is not satisfactorily attained by any of the devices for the production of stabilised money, even if it were possible to achieve them, since a stabilised unit of money involves the adjustment of past values on a scale which seems to me, at any rate to be, fantastically impracticable. But if, without varying the accounting figures which apply to plant, machines, and other real property, we vary the purchasing power of these units for which they are accounted in accordance with the fundamental proposition that the true unit of account derives from the ratio

$$\frac{\text{consumption}}{\text{production}} ,$$

the whole of our production values are automatically adjusted in accordance with the facts as these vary from day to day.

This may be put in the following mathematical form.

Let Y be any arbitrary unit and  $t =$  time, then the total production at any time is  $P = f(y.t)$  and total consumption at any time is  $C = \phi(y_1.t)$ . Rates of change of P and C with respect to time are

$$\frac{dP}{dt} = f, (y.t) \quad \text{and} \quad \frac{dC}{dp} = \phi, (y_1.t).$$

Price varies as

$$\frac{dC}{dP}$$

This is an instantaneous value. Mean values can be found for a period and the price factor then becomes

$$\frac{\int_{T_1}^{T_2} \frac{dC}{dt} dt}{\int_{T_1}^{T_2} \frac{dP}{dt} dt}$$

$$i.e. \text{ price factor} = \frac{\text{mean consumption-rate for selected period}}{\text{mean production-rate for selected period}}$$

(192)

It should be emphasised that the practical operation of a price factor of this character involves no difficulty and is, in fact, in various forms a commonplace of business operations at the present time. As compared with the complex system of discounts which are a feature of every business, and vary not merely from business to business, but from one department of the same business to another, the application of a uniform price factor for the purpose of reducing the general price level is a matter of elementary simplicity. As an appendix to this book a model scheme, intended in the first place to apply to Scotland, is attached, and it will be seen that a number of considerations not apparently arising from this theorem have been included, but on consideration it will probably be realised that the general principles explained in the foregoing pages form the basis of the conception underlying the proposals. (193)

### CHAPTER III

#### THE CRITICAL MOMENT

THERE are two hypotheses as to the method by which changes of so far reaching a character as those we have been discussing might come about, one of which may be

described as the evolutionary method, and the second as the revolutionary. For my own part I am inclined to believe in the probability of a combination of the two.

The outstanding fact in regard to the existing situation in the world at the present time, is that it is unstable. No person whose outlook upon life extends even so far as the boundaries of his village, can fail to see that a change is not merely coming, but is in progress; and it requires only a moderately comprehensive perception of the forces which are active in every country of the world to-day, to realise that the change which is in progress must proceed to limits to which we can set no bounds.

That is to say, the break-up of the present (196) financial and social system is certain. Nothing will stop it; "Back to 1914" is sheer dreaming; the continuation of taxation on the present scale, together with an unsolved employment problem, is fantastic; the only point at issue in this respect is the length of time which the break-up will take, and the tribulations we have to undergo while the breakup is in progress. But while recognising this, it is also necessary not to fall into the error which has its rise in Darwinism; that change is evolution, and evolution is ascent. It may be; but equally it may not be. That is where the necessity for the revolutionary element arises; using, of course, the word revolutionary in a constructive sense.

There will probably come well within the lives of the present generation, a period at which the blind forces of destruction will appear to be in the ascendant. It does not seem to me to be necessary that this should be so, but it does seem to be probable.

There is, at the moment, no party, group, or individual possessing at once the power, the knowledge, and the will, which would transmute the growing social unrest and resentment (now chiefly marshalled under the crudities of Socialism and Communism) into a constructive effort for the regeneration of Society. This (197) being the case, we are merely witnesses to a succession of rear-guard actions on the part of the so-called Conservative elements in Society, elements which themselves seem incapable, or undesirous of genuine initiative; a process which can only result, like all rearguard actions, in a successive, if not successful, retreat on the part of the forces attacked. While this process is alone active, there seems to be no sound justification for optimism; but it is difficult to believe that the whole world is so bereft of sanity that a pause for reflection is too much to hope for, pending a final resignation to utter catastrophe.

When that pause occurs mankind will have reached one of those crises which no doubt have frequently been reached before, but which so far have failed to avert the fall of humanity back into an era of barbarism out of which new civilisations have slowly and painfully risen.

The position will be tremendous in its importance. A comparatively short period will probably serve to decide whether we are to master the mighty economic and social machine that we have created, or whether it is to master us; and during that period a small impetus from a body of men who know what to do and how to do it, may make the difference between (198) yet one more retreat into the Dark Ages, or the emergence into

the full light of a day of such splendour as we can at present only envisage dimly.

It is this necessity for the recognition of the psychological moment, and the fitting to that moment of appropriate action, which should be present in the minds of that small minority which is seized of the gravity of the present times. To have a clear understanding of the principles which underlie the problem is essential to those who may hope to play a part in its solution; it is even desirable that skeleton plans should be in existence to meet the situation as it can be seen to exist; but nothing can be more fatal to a successful issue than the premature publication of cut-and-dried arrangements which are likely to be out of date before their adoption can be secured. As the world is constituted to-day, effective action is only possible through certain centres of influence; that is to say, short of complete social anarchy as a preliminary to a new world, it is necessary to work through the arrangements which have grown up in the system with which we are all familiar.

While the evolutionary process depends most probably on the formula to which the present civilisation is working, and, given adherence to (199) that formula, is independent of human psychology, it is fairly obvious that the effectiveness of "constructive revolution" does depend, to a large extent, on this latter factor alone. In other words, although we can float down the Rapids and over the Falls without any struggling either on our part or on the part of those with whom we come in contact, the possibility of avoiding that uncomfortable journey, if there remains a possibility, requires definite exertion. And if the cataract must be run, a safe arrival on the waters of the placid lake which may lie beyond, is surely conditional on some sort of expert navigation. If the present onerous taxation is continued into an era of rising prices, we shall not have long to wait.

There are certain factors operative in human psychology which it is possible to recognise as helpful or the reverse. During a visit to New York I saw considerable numbers of fervent men and women carrying sandwich-boards and collecting-boxes through the financial quarters in and around Wall Street, bearing on them the legend, "The Salvation Army is Father Knickerbocker's best friend." It is perhaps hardly necessary to explain that Father Knickerbocker is generally taken to represent the respectability of solid, or perhaps preferably, liquid capital. (200) That is to say, it may be taken as a scientific statement of fact that one of the most dangerous opponents of a better, cleaner world, is the sentimental spirit which is entirely concerned with the beauties of a prospective Heaven, whether that Heaven is theological or moral. The head of the institution to which I have just referred, has recently elaborated the preceding statement by an intemperate attack on the "dole," basing his objection to it on the "demoralisation" of the recipient and not, of course, on the financial jugglery which accompanies it--an attitude entirely similar to that of the Puritan in his abolition of bear-baiting; not because it was cruel to the bear, but because it gave pleasure to the populace. The practical outcome of this Puritanism is always negative. In short, there is a type of sentiment which, under existing conditions, is able to attain great respectability, but which can, with very little difficulty, be identified with the formalism against which the Great Reformer of nineteen hundred years ago launched his most bitter invective; and wherever that is found, the prospect of effective

assistance is not encouraging.

Again, it is only rarely that we find a response from those who have been "successful in business." On the whole, the most promising (201) type of mind is either that which has always been free from financial anxiety and yet, at the same time, is familiar with the technique of the modern world, or, on the other hand, the worker, whether by hand or brain, whose incentive is very largely artistic in origin, in the ranks of whom may of course be included practically all persons of really scientific temperament. Most unfortunately this latter class is, of all the divisions of Society, that least equipped, either by temperament or organisation, to exercise effective pressure.

Since, however, most men are complex characters, it is probably true that an effective appeal can be made to a large majority if the appeal is made in the right way. It is my considered opinion that the right way with most people is to discountenance severely any discussion of the general advisability of such matters as we have been considering, and, as far as possible, to put the appeal in the form: "Suppose that you yourself were offered certain conditions, such as we suggest, under which to carry on your business or your own personal economic life, would you accept them?"

With a majority of persons there is (no doubt as the result of the collective hypnotism generally referred to as education) a tendency to (202) uphold a social ideal from which their personal existence is a continuous effort to escape. That is to say, their social ideals and their social actions bear about the same relation to each other that the aspirations of the average individual in regard to an immediate translation to Paradise, as expressed on his occasional Sunday church-going, do to his wishes as expressed by his business activity during the week, and his concern at the onslaught of a cold in the head. If he can be kept on the more or less solid ground of his individual tastes, and the means which would enable him to achieve them, he is amenable to reason; let loose on social ideals, and we generally have something of about equal value to the theology of the Salvation Army - a thing which clearly has definite uses in connection with a given set of premises, but is not a hopeful source from which to look for a new direction of objective - is, in fact, frequently a vicious obstacle.

It hardly needs emphasis that a constant binding back of proposals for reform, to the moving events of the world, is of the utmost value; in fact, if it be possible to clarify the relation between the analysis of the financial system, the foci of discontent, and the logical remedy, with sufficient emphasis and over a (203) sufficiently wide area, then the stage will be set for the greatest victory which the human individual has, within history, achieved over the forces which beset him to his fall. (204)

## **APPENDIX**

### **DRAFT SOCIAL CREDIT SCHEME FOR SCOTLAND**

(1) Obtain from existing sources, such as company balance-sheets, land registration

offices, and insurance companies, such information necessary to place a money valuation upon the whole of the capital assets of Scotland, such as land, roads, bridges, railways, canals, buildings, drainage and water schemes, minerals, semi-manufactured materials. No distinction between public and private property. Replacement values to be used where the property is in use.

Add to this the sum representing the present commercial capitalised value of the population. Such a figure exists and varies with the actuarial expectation of life and the plant capacity of the country, and is something like £10,000 for a citizen of the United States at the age of twenty-five. From the grand total thus obtained a figure representing the price value of the Scottish capital account could be obtained. (205) Financial credit to any equivalent can be created by any agency such as a Scottish Treasury empowered by the Scottish people.

(2) As from the initiation of this scheme, the holding of any stock, share, or bond by a holding company or trustee will not be recognised. It is the intention that no shareholding in any industrial undertaking shall be other than in the form of equity shares of no par value, *i.e.* preference or common shares or stock. Bonded indebtedness will be recognised for purposes of compensation where held by individuals, upon a proper investigation, but where held by corporations will be subject to such terms of redemption as may seem desirable.

No transfer of real estate directly between either persons or business undertakings will be recognised. Persons or business undertakings desiring to relinquish the control of real immovable estate will do so to the Government, which will take any necessary steps to re-allot it to suitable applicants. No Government Department shall administer either directly or indirectly any business, whether agricultural, productive, or distributive, other than the administration of the financial and credit schemes, or receive payment for any services rendered to the public, other than in bulk. (206)

#### THE INITIAL NATIONAL DIVIDEND

(3) For the purpose of the initial stages an arbitrary figure, such as 1 per cent of the capital sum ascertained by the methods outlined in clause (1), shall be taken, and a notice published that every man, woman, and child of Scottish birth and approved length of residence, with the exception mentioned in the paragraph that follows, is to be entitled to share equally in the dividend thus obtained, which might be expected to exceed three hundred pounds per annum per family. It will be clearly understood that no interference with existing ownerships, so called, is involved in such a proceeding. The dividend to be paid monthly by a draft on the Scottish Government credit, through the Post Office and not through the banks.

Any administrative change in the organisation of the Post Office should specifically exclude transfer of the money and postal order department and the savings bank. No payments of the national dividend will be made except to individuals, and such payments will not be made where the net income of the individual for personal use, from other



sources, is more than four times that receivable in respect (207) of the national dividend. The national dividend will be tax-free in perpetuity, and will not be taken into consideration in making any returns for taxation purposes, should such be required. Except as herein specified this dividend will be inalienable.

#### "ASSISTED PRICE" FOR REGISTERED BUSINESSES

(4) Simultaneously with the publication of the foregoing notice a figure to be published known as the discount rate, to replace the existing bank discount rate, a suitable value of this for initial purposes being 25 per cent. It is important that the figure should not be less than 25 per cent, and it might reasonably be higher.

(5) Simultaneously, an announcement to be published that any or all business undertakings will be accepted for registration under an assisted price scheme. The conditions of such registration will be that their accounts, as at present required under the Companies Acts, should contain an additional item showing the average profit on turnover, and that their prices shall, as far as practicable, be maintained at a figure to include such average profit, (208) where this is agreed as equitable for the type of business concerned (the suitable profit being, of course, largely dependent on the velocity of turnover). Undertakings unable to show a profit after five years' operation to be struck off the register.

#### HOW FREE CREDITS WOULD BE ISSUED

(6) In consideration of the foregoing, all registered businesses will be authorised to issue with sales to ultimate consumers an account on suitable paper for use as explained in the following clause.

(7) Payment for goods will be made in the ordinary way, either by cheque or currency. The purchaser will lodge his receipted account for goods bought with his bank in the same way that he now pays in cheques, and the discount percentage of the amount of such account will be recredited to the consumer's banking account. Unregistered firms will not be supplied with the necessary bill forms for treatment in this manner, with the result that their prices will be 25 per cent, at least, higher than those of registered firms. (It is obvious that the larger the discount rate can be made, the greater will be the handicap of the non-registered firms.) (209)

The total of the sums credited by the banks to private depositors in respect of these discounts will be reimbursed to them by a Scottish Treasury credit. The capital account will be "depreciated" by such sums, and "appreciated" by all capital development. The existing banks will be empowered to charge an equitable sum for the services thus rendered.

## HOURS AND WAGES

(8) The hours of Government offices will be reduced to four hours per day. To meet the temporary congestion of work, additional staff will be employed, such staff, however, doing identical work with the existing staff in the form of a second shift, and sharing with the existing staff the chances of promotion irrespective of seniority. (The object of this is to discourage the well-known bureaucratic tendency to enhance the importance of existing staffs by employing additional numbers of persons ranking by virtue of seniority below the original officials, and, at the same time, to afford an opportunity of appointing a duplicate set of officials to check reaction without dislocation of existing routine.)

(9) Wage rates in all organised industries (210) will be reduced by 25 per cent where such reduction does not involve a loss to the wage-earner exceeding 20 per cent of the sums received in the form of national dividend. The wage rates ruling in 1928 to be taken as the basis against which the reduction would be made.

Any trade union violating a wage agreement to render its membership liable to suspension of national dividend, and any employers' organisation committing a similar offence, to be liable to suspension of price assistance or wage reduction.

### MUST ACCEPT EMPLOYMENT, OR--

For a period of five years after the initiation of this scheme, failure on the part of any individual to accept employment in whatever trade, business, or vocation he was classified in the last census, under conditions recognised as suitable to that employment (unless exempted on a medical certificate), will render such individual liable to suspension of benefit in respect of the national dividend.

(10) Taxation of specific articles or specific forms of property to be abolished. Any taxation found to be necessary to take the form either of (211) a flat non-graduated taxation of net income or a percentage *ad valorem* tax upon sales, or both forms of taxation together.

### NOTES.

The price level of 1928 has been taken for the rough estimate of the items which, when added together, make up the Real Assets or Real Capital account of Scotland. The Financial Credit, which is equivalent to this, appears in a National Account as a contra-item. Money and Real assets are on opposite sides of the account (and should balance) not, as in a commercial account, on the same side of the account. (212)

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