

THE INDUSTRIAL SYSTEM

The Increase of Productive Power

It is evident 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. (*Social Credit 18*)

The distinguishing characteristic of the nineteenth and twentieth century is the rapid advance of process, together with the rendering available of large amounts of energy which may be considered as derived from the sun, through the various agencies of coal, oil, steam, etc. It appears to be reasonably true to say that for a given process the rate of production is proportionate to the rate of use of energy, and to a large extent it is immaterial whether this energy is muscular or is applied by machines. The physical effect of these factors has therefore been to increase the rate of production of a given article per human unit of labour. For instance, the rate of production of pig-iron is three times as great per man ⁵⁶ employed as it was in 1914. A workman using automatic machines can make 4,000 glass bottles as quickly as he could have made 100 by hand twenty-five years ago. In 1919 the index of factory output (based upon 1914 as 100) was 147, and the index of factory employment was 129. By 1927 output had risen to 170, but employment had sunk to 115. In 1928 American farmers were using 45,000 harvesting and threshing machines, and with them had displaced 130,000 farm hands. In automobiles, output per man has increased to 310 per cent, an increase of 210 per cent. (*Macmillan Report*)

On this basis it is safe to say that one unit of human labour can on the average produce at least forty times as much as was the case up to the beginning of the nineteenth century. (*The Monopoly of Credit 26*)

Employment Decreases as Production Increases

For a given programme, 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. (*Social Credit 18-19*)

If you will look at these generalizations, which it is possible to support by any required amount of exact data, you must have the conviction forced upon you that the modern production system, if unhampered, is capable of producing everything that is required of it, and further, that this production involves or can involve the use of a continuously decreasing amount of human energy or labour. That is the first vital point to grasp. The second point is that the best brains of this and every other country in the industrial and scientific field are working as though they recognized their objective to be the replacement of human labour by that of machines, although it is quite possible that very few of them ⁵⁷ do. To put the matter still more baldly, these best brains are endeavouring to put the world out of work, to create what is mis-called an unemployment problem, but what should be called a condition of leisure. (*Warning Democracy 82*)

The Objective of an Industrial System

In attacking an engineering problem the first point we settle, with as much exactness as possible, is our objective. No engineer observer of the discussions which take place in political and lay circles on the industrial problems of the present day can fail to be struck with the fact that the problem itself is rarely stated with any clearness. For instance, the paramount difficulty of the industrial system is commonly expressed as

that of unemployment. Therefore the suggestion involved is that the industrial system exists to provide employment, and fails. Those who are engaged in the actual conduct of industry, however, are specifically concerned to obtain a given output with a minimum of employment, and in fact, a decreasing amount of employment. Consequently, those who are talking about industry and those who are conducting industry have in their minds objectives which are diametrically opposed and incompatible. (*The Monopoly of Credit 116-7*)

If employment is accepted as the objective of the industrial system, therefore, and output to be a dependent variable of this objective, either (a) process and mechanical energy employed must be kept rigidly constant, or (b) output must be completely unfettered by any difficulties of sale. (*The Monopoly of Credit 117*)

Overproduction Solved by Sabotage

The banking organization at present existing, even if we are prepared to concede to it an altruism not particularly noticeable, is by its expressed philosophy seriously handicapped in dealing with this situation. This philosophy exalts industrial work as an end in itself, and deploras as one of the major evils of the time, the leisure which it labels 'the unemployment problem'. While it possesses the power to inaugurate 58 and modernize the plant of industry, and in the process to locate it geographically in accordance with the best interests of the community, the carrying out of such a policy must of necessity be entrusted to technically capable individuals. Unfortunately for the banking system, these individuals cannot be restrained from making each successive plant more efficient than the last, with the result that a given output requires less and less labour, and the unemployment problem, as labelled, is thereby increasingly complicated. Only by a frenzied acceleration of capital sabotage, which is now being openly advocated in many quarters, can the population (which would, so far as the physical aspect of the situation is concerned, be free to enjoy the product of the plants already existing) be kept at work on the production of capital goods. (*The Monopoly of Credit 77*)

The enormous increase of sabotage of all descriptions which is the outstanding feature of contemporary industry is due to the blind effort to equate purchasing power to production without altering the principles of price-fixing.

(*Credit Power and Democracy 18*)

The True Objectives of Industry

The problem set for, I believe, the engineer to solve, therefore, may be stated thus. He has to obtain a clear statement as to what the production system is aiming at. Such a statement is certainly not available at the moment. If the aim is maximum production, he must stipulate for the provision of buying power to take away the production as fast as it is turned out. If it is a given standard of living with a consequent steady increase in leisure, he must specify for the provision of buying power which is not derived from employment, because such an objective postulates a constant decrease in the amount of labour required in the industry. What he cannot be expected to do, in my opinion, is to combine the *fundamentally incompatible objectives of labour-saving, and the provision of unlimited employment.*

(*Warning Democracy 20*)

The *primary* object of the whole industrial system should be 59 the delivery, to individuals associated together as the public, or society, of the material goods and services they individually require. This demand of individuals, be it emphasized, is the absolute origin of all activity. Since men co-operated to satisfy this demand, which is complex in its nature, it is necessary also to combine the demand, and this combined demand of society is the policy, so far as it is economic, of society as a whole. The first part of the problem, then, consists in finding a mechanism which will impose this policy on the co-operating producers with the maximum effectiveness, which always means with the minimum of friction.

(*The Control and Distribution of Production 41*)

PURCHASING POWER

It may be contended and, in fact, it frequently is stated, that even with the unemployment statistics at their minimum point and the Nation at its maximum activity in Industry, there is still not enough product to go round. Recently, for instance, Professor Bowley has estimated that the total surplus income of the United Kingdom in excess of £160 per annum is only £250,000,000, which, if distributed to 10,000,000 heads of families would mean £25 per annum per family, assuming that this distribution did not reduce the production of wealth. The figures themselves have been criticized; but, in any case, the whole argument is completely fallacious, because it takes no account whatever of loan credit, which is by far the most important factor in the distribution

of production, as we have already seen. What it *does* show is that the purchasing power of effort is quite insignificant in comparison with its productive power. (*Economic Democracy 73-74*)

Statistics are only apt to be confusing, but I might mention that it has been calculated that the average income per family in Great Britain, if all incomes large and small were pooled, would be under £200 per annum. (*Warning Democracy 126*)

Purchasing Power Insufficient, even if Redistributed

Economic advantage to the ordinary man means money advantage, and he has the idea, if he **60** thinks about the matter at all, that there is only just so much money in the world, and if one man has more than the other must have less. . . . The poor are poor not because the rich are rich, but because there is not enough *money*, or more correctly purchasing power, to make the poor rich, or even comfortably well off, even if the whole of the money possessed by the rich were taken from them and equally divided amongst the poor. The result of attempting to enforce the latter policy, and such an attempt is being made in many countries to-day under the stress of public pressure and democratic politics, is merely to accentuate the difficulty and still further to increase the grip of the financiers since the distribution of purchasing power, largely through the agency of wages, depends to a considerable extent on the buying of articles which would not be produced at all if the existing amount of money were equally divided, since no one would have enough to buy articles which may be said to be above the most mediocre standard of living. (*Warning Democracy 125-6*)

What the population of the world wants, and is determined to get, is a sufficiency of goods and services; there is no lack of these goods and services, either actual or potential, but they cannot be obtained except through the agency of money, of which there is a lack. This lack of money is not natural in the sense of being unavoidable, but is wholly artificial, and is the result of a deliberate policy in the operation of the money system, although that policy may not perhaps be wholly conscious. (*The Breakdown of Employment System 9*)

It seems beyond dispute that the reason that buying up to the power of the ability of the industrial system to produce does not take place is because there is a lack of money required to pay the prices demanded. In a subsequent section it is proposed to prove that under the existing financial system the general public can at no time acquire by purchase the whole of production, but while this is so, and the *proportion of a given volume* of production which the public *can* buy is probably fixed by the system, *the total volume of production* is almost certainly governed by financial policy. (*Macmillan Report*)

61 Categorically, there are at least the following five causes of a deficiency of purchasing power as compared with collective prices of goods for sale:

1. Money profits collected from the public (interest is profit on an intangible).
2. Savings, i.e., mere abstention from buying.
3. Investment of savings in new works, which create a new cost without fresh purchasing power.
4. Difference of circuit velocity between cost liquidation and price creation which results in charges being carried over into prices from a previous cost-accountancy cycle. Practically all plant charges are of this nature, and all payments for material brought in from a previous wage cycle are of the same nature.* (See 'The A + B Theorem, Page 68)
5. Deflation, i.e. sale of securities by banks and recall of loans.

There are other caused of, at the moment, less importance.

(*The New & The Old Economics 19*)

The point we have to make is not merely that financial purchasing power is unsatisfactorily distributed, it is that, *in its visible form*, it is collectively insufficient.

(*Social Credit 82*)

Profits

It is impossible for a closed community to operate continuously on the profit system, if the amount of money inside this community is not increased, *even though the amount of goods and services available are not increased* . . . If a number of persons continue to sell articles at a greater price than that paid for them, they must eventually come into possession of all the money in the community, and the only flaw in such a state of affairs would be that it would be self-destructive, since in a comparatively short period of time a small section of the community would own all the money and

therefore the remainder of the community would be unable to pay, and production and sale would stop. This process probably contributed largely to the rapid accumulation of wealth in the hands of the entrepreneur at the beginning of the nineteenth century, and the limited extent to which the 62 benefits of industrial progress were passed on to the general population, but the profit-making system is certainly not to any great extent responsible for the present situation, since profits have ceased to form an outstanding feature of business. It is an extraordinary feature of the controversy that they are attacked as immoral as well as undesirable. It has never been clear to me why any man in any position of life should be expected to perform any action whatever which was not in *some* sense of the word profitable to him, and there is more than a suspicion that the attack upon profits can ultimately be traced to a fear of the economic security offered by this type of remuneration, as compared with that of the wage and salary.
(*The Monopoly of Credit* 23-25)

The effect of the concrete sum distributed as profit is overrated in the attacks made on the Capitalistic system, and is of small and diminishing importance as compared with the delusive accounting system which accompanies it, and which acts to reduce consistently the purchasing power of effort. It is, nevertheless, of prime importance as furnishing the immediate 'inducement to produce', which is a false inducement in that it claims as 'wealth' what may just as probably be waste.
(*Economic Democracy* 68-9)

While the effect of . . . profit . . . is far and increasingly less important than the overhead charges added to the value of the product in computing its factory cost, it is the dominant factor in the political aspect of the situation, because the equation of production is stated by the capitalist in a form which requires it to be solved in terms of selling price, while the profit is always a plus quantity.
(*The Control and Distribution of Production* 58-9)

Concealed Profits

If the interaction between production for profit and the creation of credit by the finance and banking houses is understood, it will be seen that the root of the evil accruing from the system is in the constant filching of purchasing power from the individual in favour of the financier, rather than in the mere profit itself.
(*Economic Democracy* 69)

The complaint which is levelled at the banks is generally 63 that they pay too large a dividend. Now, curiously enough, in my opinion, almost the only thing which is not open to destructive criticism about the banks is their dividend. Their dividend goes to shareholders and is purchasing power, but their enormous concealed profits, a small portion of which goes in immensely redundant bank premises, etc., do not provide purchasing power for anyone, and merely aggrandize banks as banks. But the essential point in the position of banks, which is so hard to explain, and which is grasped by so very few people, is that their true assets are not represented by anything actual at all, but are represented by the difference between a society functioning under centralized and restricted credit and a free society unfettered by financial restrictions.
(*Warning Democracy* 42-43)

Apart from any more subtle explanation, even great banks hesitate to distribute their true profits for fear of attracting too much attention. (*Social Credit* 151)

Purchasing Power and Prices

The simplest method of obtaining a physical conception of the situation is to regard the money system and the price system as a double-entry system of book-keeping. Every article which is produced has a price attached to it, and somewhere on the opposite side of the account there should be a sum of money capable of moving each and every article out of the production system into the consuming system. Since money is the mechanism by which the consumer gives orders; no money, no order; no order, no delivery; and ultimately, no delivery, no production. Having this conception firmly fixed in your minds, you will see at once that if the total amount of money available on one side of the account is less than the total amount of prices on the other side of the account there must be something remaining unsold always.
(*Warning Democracy* 31)

The 'Orthodox' Theory of Purchasing Power

On the assumption that the delivery of goods and services is the objective of the industrial system, it is obvious that the rate of flow of purchasing power should be equal to 64 the rate of generation of prices. The existing financial arrangements make a crude effort to approximate this condition by issuing purchasing power to

manufacturing organizations in the form of loans, which in turn the manufacturing organizations distribute in wages and salaries against future production.

In other words, the existing financial system increasingly mortgages the future in order to sell the goods existing at present, the most recent and most obvious form of this practice being the instalment system of purchase.

The Monopoly of Credit 125-6)

The orthodox theory 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 represents collective price, is 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 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.

(Social Credit 83-4)

And its Fallacy

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 **65** 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 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 . . . 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.

(Social Credit 84-5)

That the national income equals the sum of the price values of the national production . . . *would be true if all wages, salaries and dividends charged to production were used, at the instant they were earned, to buy the production in respect of which they are earned.* But they are not so used, and on this gap between production and delivery, which the complexity of modern co-operative production is widening, a mass of credit purchasing power is erected which never appears as income at all. If A ordered a house off B; and B, having built it, lived in it for ten years and then insisted on charging his rent to A in a lump sum addition to the price, A would probably complain; but when B puts his overhead charges, the rent of his control of production, into the price of bricks for A's garage, A seems to regard it as an act of God, or alternatively, of the king's enemies. Possibly he is right in both cases, but that does not alter the fact that A is being asked to pay, in prices, for something -viz.

a period of use-value, past, and therefore **66** destroyed and non-existent—of which the *effective* purchasing power never was distributed either as wages, salaries, or dividends—i.e. income—therefore income will not buy it. What may remain is the credit-value of this period of use, its assistance to future production, which may form a solid basis for a distribution of purchasing power possibly much in excess of the use-value charged in prices; but A gets none of this.

We admit the elusiveness of the argument; it is one of those conceptions which, like the differential coefficient in mathematics, to which it has a strong family resemblance, comes suddenly rather than by intellectual explanation.

(The Control and Distribution of Production 114-116)

Tendency of Present Flow of Purchasing Power to Decrease

All large-scale business is settled on a credit basis. In the case of commodities in general retail demand, the price tends to rise above the cost limit, because the sums distributed in advance of the completion of large works become effective in the retail market, while the large works, when completed, are paid for by an expansion of credit. This process involves a continuous inflation of currency, a rise in prices, and a consequent dilution in purchasing power.

The reason that the decrease in the consumer's purchasing power has not been so great as would be suggested by these considerations is, of course, largely due to intrinsic cheapening of processes which would, if not defeated by this dilution of the consumer's purchasing power, have brought down prices faster than they have risen.

Economic Democracy 62)

The book value of the world's stocks is always greater than the apparent financial ability to liquidate them, because these book values already include mobilized credits. The creation of subsidiary financial media, in the form of further bank credits, becomes necessary, and results in the piling up of a system of figures, which the accountant calls capital, but which are in fact merely a function of prices. The effect of this is, of course, to decrease progressively the purchasing power of money, or in other words to concentrate the lie on the services of others, which money gives, in the hands of ⁶⁷ those whose rate of increase is most rapid. Intrinsic improvements in manufacturing methods operate to delay this concentration in respect of industry, but the process is logically inevitable, and, as we see, is proceeding with every-increasing rapidity; and we may fairly conclude that the profit-making system as a whole, and as now operated, is inherently centralizing in character.

(Economic Democracy 29-30)

A New Source of Purchasing Power Essential

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.*

(Social Credit 99)

From this disparity between purchasing power and goods available arises almost every material economic ill from which the world suffers today, including in that category the imminent risk of devastating wars. The so-called unemployment problem is not a problem at all, but a direct result of scientific methods applied to industry; becoming an economic and political menace of the first order because unemployment carries with it a failure in economic distribution. The multiplication of the category of criminal offences, from cocaine-running to 'long-firm' frauds, can be directly and solely traced to a deficiency of purchasing power and the vital necessity to expand it, honestly if possible, but to expand it anyway.

(Warning Democracy 103)

The only sane limit to the issue of credit for use as purchasing power is the limit imposed by ability to deliver the goods for which it forms an effective demand, providing that the community agrees to their manufacture.

(Credit Power and Democracy 102)

68 THE A + B THEOREM

Looked at from the above standpoint it is fairly clear that the kernel of the problem is factory cost, since it is quite possible to conceive of a limited company in which the shares were all held by the employees, either equally or in varying proportions, according to their grade, and the selling costs were internal – that is to say, all advertising was done by the firm itself, and the cost of its salesmen, etc., was either negligible, or confined to their salaries. We should then have the complete profit-sharing enterprise in its ultimate aspect, and the argument against Capitalism in its usual form would not arise.

(Economic Democracy 57)

Rates of Flow of Prices and Purchasing Power

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

Group A – All payments made to individuals (wages, salaries, and dividends).

Group B – All payments made to other organizations (raw materials, bank charges, and other external costs). Now the rate of flow of purchasing power to individuals is represented by A, but since all payments go into prices, the rate of flow of prices cannot be less than $A + B$. The product of any factory may be considered as something which the public ought to be able to buy, although in many cases it is an intermediate product of no use to individuals but only to a subsequent manufacture; but since A will not purchase $A + B$, a proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the descriptions grouped under A. It will be necessary at a later stage to show that this additional purchasing power is provided by loan credit (bank overdrafts) or export credit.
(*Credit Power and Democracy* 21-23)

69 Some Objections to the Theorem Answered

Now the first objection which is commonly raised to this statement, is that the payments in wages which are made to the public for intermediate products which the public does not want to buy and could not use, when added together, make up the necessary sum to balance the B payments, so that the population can buy all the consumable products....As the economic system may be said to depend upon this matter, it is essential that a clear understanding of it should be obtained.* See also 'The Orthodox Theory of Purchasing Power and its Fallacy,'
(*The Monopoly of Credit* 32-33)

For instance, a modern stamping plant may require to add 600 per cent to its labour charges to cover its machine charges, this sum not being in any true sense profit. In such a case, for every £1 expended in a given period in wages, £6, making £7 in all, would be carried forward into prices, and although this is an extreme case, the constant, and in one sense desirable, tendency, is for direct charges to decrease and for indirect charges to increase as a result of the replacement of human labour by machinery. There is no difference between a plant charge of this nature and a similar sum repaid as a 'B' payment. The essential point is that when a given sum of money leaves the consumer on its journey back to the point of origin in the bank it is on its way to extinction. If that extinction takes place before the extinction of the price value, created during its journey *from* the bank, then each such operation produces a corresponding disequilibrium between money and prices. For these causes and others of a similar character, it seems to me quite beyond argument that the production of such a quantity of intermediate products including plant, machinery, buildings, and so forth, as is physically necessary to maintain a given quantity of consumable products, will not provide a distribution of purchasing power sufficient to buy these consumable products. This would be true even if prices and costs were identical. But since prices can and do rise much above costs, additional purchasing power from intermediate production is rapidly absorbed.

70 To say that at some time or other the money has been distributed is in the nature of a general assertion which does not bear upon the specific fact. The mill will never grind with the water that has passed, and unless it can be shown, which it certainly cannot be shown, that all these sums distributed in respect of the production of intermediate products are actually saved up, not in the form of securities, but in the form of actual purchasing power, we are obliged to assume what I believe to be true, that the rate of flow or purchasing power derived from the normal and theoretical operation of the existing price system is always less than the generation of prices within the same period of time.
(*The Monopoly of Credit* 36-37)

Sales between Consumers

There is another method of regarding this matter which is helpful to the grasp of an admittedly difficult subject. Suppose that the wages, salaries, and dividends distributed *were* exactly sufficient to buy the new production on sale at any moment and did so buy it, i.e. let us suppose that the financial system worked as it is supposed to work. Obviously numbers of things would be bought, such as houses, furniture, etc., which would have a considerable life. But *ex hypothesi* the sale *between consumers* (as distinguished from sales from producer to consumer) of these would be impossible – they would have no money, since at the moment of transfer of the goods from the producing to the consuming system their money value would have disappeared on its journey back to the bank.

Sales between *consumers* are an important though frequently overlooked factor in distribution, and require that the *money value* of 'second-hand' goods shall be in existence until the goods have physically disappeared.

(*The Monopoly of Credit* 37-38)

Velocity of Circulation

In Great Britain, the deposits in the Joint Stock Banks are roughly £2,000,000,000. In rough figures, the annual clearings of the clearing banks amount to £40,000,000,000. It seems obvious that the £2,000,000,000 of deposits must circulate twenty times a year to produce these clearing house figures, and that therefore, the average rate of circulation is a little over two and a half **71** weeks . . . At this point it may be desirable to deal with the common error that the circulation of money increases its purchasing power, an error which seems implicit on page 19 of Professor Copland's pamphlet,* (Facts and Fallacies of Social Credit (Brown, Prior & Co. Melbourne)) where he remarks: 'A given unit of money will circulate many times in a unit of time. It will make many payments, because it has what economists call velocity of circulation.' I think that what Professor Copland means by this is that, if I pay £1 to the butcher for meat and the butcher pays the £1 to the baker for bread which the baker has supplied to the butcher, then two debts are liquidated. This is a complete and major fallacy. The butcher incurred costs, perhaps from a farmer in respect of cattle supplied, who in his turn possibly borrowed £1 from the bank. In any case, if the butcher uses my £1 to pay the baker, he has broken the chain of repayment from me to the farmer, and ultimately to the banker, and the costs which were created when the farmer sold his cattle to the butcher are not liquidated. The clearing house figures just quoted contain a large number of 'butcher-baker' transactions, and these must be deducted in estimating circulation rates. The vital fact is, of course, that one unit of money can circulate an indefinite number of times through the costing system, in each case creating a fresh cost or, if it be preferred, a fresh debt charge, but not fresh purchasing power. It is perhaps, unnecessary to contend that the average antiquity of the debt charges against the population is more than two and a half weeks. It is certainly a considerable number of years, but it would be difficult to say exactly what it is.

(The New and the Old Economics 18-19)

It may, with reason, be asked how if this be so, is it that in fact consumable products are sold at all? The answer to this is again complex, but the main forms in which assistance is given to the defective purchasing power of the population (although that assistance is much less than is required to enable the production system fully to be drawn upon) are the redistribution of money through the social services such as the so-called dole, the use of money received from the sale of **72** exports, from foreign investments and from invisible exports such as shipping, redistributed through the medium of taxation, the distribution of bank loans (advanced on mortgage, debentures, etc.) in wages for excessive capital production, and the selling of goods below cost through the agency of bankruptcies, forced sales and actual destruction. These latter three are a direct discouragement to production, and in fact represent a subsidy in aid of prices from private sources, a conception which it is desirable to bear in mind in considering remedies, in view of the fact that, so far from this subsidy raising prices, it only comes into operation by the lowering of prices.

It will readily be seen how this situation in which not production, but money, is chronically insufficient, must transfer control to the institutions which have acquired the monopoly of money-making. In order that the industrial system may not grind to a standstill, an increasing issued of money, chiefly for capital production, is necessary to bridge the gap between purchasing power and prices – a gap which is the only possible explanation of the anomaly between a half-idle production system and a half-starving population. But as this fresh money is claimed by the banking system, and has to be repaid, the situation is cumulatively worsened.

(The Monopoly of Credit 36-40)

The above proposition is perhaps most simply grasped by recognizing that the B payments may be considered in the light of the repayment of a bank loan by all the concerns to whom they are made, with the result involved in the relationship previously discussed between bank deposits and bank loans. When real capital (i.e. tools, etc.) is financed from savings, that condition is complicated by (b)

The Effect of Saving

(b)

The persistence of the idea that monetary saving has a physical counterpart in physical accumulation will no doubt exercise the attention of historians of the present period. Since money is normally only distributable through the agency of wages, salaries, and dividends, it being assumed that the interest on Government loans is provided by taxation, the whole of these **73** wages, salaries and dividends must have appeared in the cost, and consequently in the price of articles produced. It does not appear to need any elaborate demonstration to see that any saving of these wages, salaries, and dividends means that a proportion of the goods in the prices of which they would appear as costs, must remain unsold within the credit area in which they are produced and are therefore, to the economic sense, wasted. The investment of the funds so saved means the reappearance of the same sum of money in a fresh set of prices, so that on each occasion that a given sum of money is reinvested, a fresh set of price values is created without the creation of fresh purchasing power.

(Macmillan Report)

Effects of Credit-Financing

The method by which most modern financing is done, under cover of a smoke screen, provided by comparatively small subscriptions from the public, is that some financial institution actually creates the money, taking debentures on the new factories as security. Ethically, there is every difference between money created by a stroke of the pen and money acquired as the result of years of effort, but I am not at the moment concerned with ethics. At first sight it is a better method, considered as an isolated operation. When the new factories come into existence, new money is distributed to the men who built the factories. But there are two practical objections, leaving aside any question of ethics. The new money or credit is claimed by the financial institution as its property, and therefore when it is lent, creates a debt against the public. At the same time, being distributed in advance of consumable goods, it tends towards true inflation. The debt differs in nature from the debt created by private finance in exactly the same way that a debt to foreigners differs from an internal debt – its repayment actually takes money out of the country. If a rise of prices has occurred, it is repaid twice over, once in increased prices and again on redemption. Secondly, there is no provision in this method of financing for the money required to pay the interest on the debentures, which in fact can only be paid, if it is paid, by the issue of fresh money to pay it, which, under existing circumstances, ⁷⁴ comes from the same source, that is to say, the financial system. From this point of view, it is the difference between usury and profit – a difference clearly drawn in the Middle Ages. There is an additional factor, perhaps more important than any of these, and that is that either by directly calling in the debentures or by selling the debentures to the public and calling in public overdrafts, financial institutions can, and most unquestionably do, recall the money equivalent to the plant value at a greater rate than this plant depreciates.

It is therefore, I think, incontestable that, either wholly or in part, the purchasing power to pay overhead charges on a scale which is legitimate from the plant-owner's point of view does not exist, except in times of wholly excessive capital production or quite abnormal exportation.

(The New & The Old Economics 15-17)

THE BREAKDOWN OF TRADE

Inflation and Deflation

Shortly, the characteristics of inflation are: Enormous increase in production, fantastic rises in prices, speculation, submergence of the professional and so-called cultured classes, centralization of economic power, and industrial serfdom. Saving becomes impossible. There is little unemployment, at any rate for a time, but if you *are* unemployed, you starve immediately. Your immense output cannot be internally absorbed . . . the urgent necessity of markets means certain war, sooner or later, and the greater the inflation the sooner the war must come. In the meantime, however, you become more capable of the immense output which war demands; and your centralized industrialists, who do not expect to line the trenches, regard the prospect with complacency.

(The Breakdown of the Employment System 3)

The characteristics of deflation are familiar. Somewhat lower prices, lower standard of living, industrial stagnation and unemployment, bankruptcies, grinding taxation and class cleavage, are some of them. They are all related; and it is probably not by accident that such emphasis is placed on one of them alone, as though it stood by itself – I mean unemployment.

(The Breakdown of the Employment System 3)

⁷⁵ Effects upon Purchasing Power

On the onslaught of peace, the financial authorities realized that it was imperative, from their point of view, to regain control of the situation. After the lapse of a short period of feverish production and industrial prosperity, accompanied by rapidly rising prices, the policy of deflation was simultaneously inaugurated in the United States and Great Britain about April 1920. The effects were immediate. In the United States the numbers of unemployed rose from negligible figures to six millions within three months, and in Great Britain effects proportionate to the size of the population were similarly experienced. In the United States this policy was reversed after a period of about six months, to be followed by eight years of the greatest material prosperity ever experienced by any country in history, during which the deposits in the Member Banks of the Federal Reserve System rose by £1,873,000,000. For reasons which appear to be connected with the subservience of the Bank of England to the Federal Reserve Bank of the U.S.A., the policy of deflation was pursued in Great Britain almost alone amongst industrial countries, with results which are fresh in the memory, but which may be conveniently visualized upon examination of the Chart (detailing No. of Suicides and Bankruptcies between 1910 and 1930, on page 31). During this period the deposits in the five large Joint Stock Banks together only rose by £16,000,000.

The policy of deflation in Great Britain was divided into two stages, the first stage consisting in a rapid reduction in the total amount of currency notes in circulation, the figure being in the first place fixed at 348 millions, as a result of provision that the total in any year should not exceed the minimum circulation of the preceding year. Since the stagnation of trade was itself a prime cause in the reduction of the circulation of Treasury Notes, a progressive reduction from year to year was inevitable, and by 1928 the total of Bank of England and Treasury notes had fallen to £260,000,000. The Federal Reserve Bulletin, in contrast, remarked in December 1926 that the volume of money in circulation in the U.S.A. on November 1st was larger by £32,000,000 than at the corresponding date in 1925.

The legal liability of the Joint Stock Banks being to deliver 76 legal tender upon demand in the case of their current accounts, and after an agreed period in the case of time deposits, the automatic result of the reduction of Treasury Notes was to reduce by probably ten times the amount of this reduction the amount of credit which the banks were prepared to extend to industry. The effect was that which might logically be expected; the amount distributed in wages in the country fell, although the wage rates to a large extent did not. The purchasing power of the country was diminished, and stocks were thrown upon the market at heavy losses to the producers, with the desired effect that prices fell, not because cost of production fell, but because the producer provided from his own resources a subsidy in aid of cost by selling at a loss. In 1925 the process was accelerated by the restoration of a modified Gold Standard, and in 1928 the Government handed over the Note issue to the Bank of England.

(The Monopoly of Credit 52-55)

There is 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 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 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. *(Social Credit 102-103)*

Effects upon Production

Industrial depression may be characterized as a lack of sufficient orders to keep both plant and personnel employed, together with an accompanying lowering of the price level in relation to the cost of production, so that both the manufacturer 77 fails to make a profit and the volume of wages of the wage-earning class tends to fall. The phenomena are cumulative and have no relation either to productive capacity or psychological demand. The material by-products are bankruptcies, the breaking up of plant, and the psychological by-products are industrial and political unrest and the destruction of social *morale*. *(Macmillan Report)*

A trade slump comes; unemployment grows like a snowball, since every man thrown out of work is one man less receiving money, and therefore, one man less in the market to buy goods; our manufacturer, though still willing and able to make his product, cannot sell it, and if this state of affairs continues for any length of time he is ruined. His business organization is probably excellent, but it is broken up and his plant dispersed, and when the trade revival comes a new plant and a new organization has again to be constructed at the expense of the consumer.

Both the employer and the employed are so familiar with this cycle that both take steps which they imagine will protect them against its effects, but which in fact only make confusion worse confounded.

(The Control and Distribution of Productivity 89-90)

Futility of Policy of Economy

Consider now the policy actually being pursued at this moment by the Government and the financial powers to deal with the problem. They can be summarized in one sentence – the reduction of costs, and more especially labour costs. But labour costs are wages and form by far the most important item in the total purchasing power *inside the country* available for the distribution of goods. Even supposing that retail prices were reduced in exact ratio to wage reductions, which is highly improbable or even impossible, how is the distribution of goods *to people in this country*, which is the true object of British industry, thereby advantaged? As the prices fall by this method, so the amount of money to purchase also falls, and we are as badly off as before, with the added complication of the discontent evoked by the reduction of wages.

(The Control and Distribution of Productivity 92-93)

78 General Diagnosis of Trade Breakdown

There is, I think, a widespread idea that if agitators would only stop agitating, and reformers stop trying to reform, the world would settle down. For myself, I am quite convinced that both agitation and reformism are merely symptoms of a grave and possibly fatal disease in our social and economic system, and that unless an adequate remedy is administered there will be an irreparable breakdown. I am emphasizing this lest anyone should imagine that mere *laissez-faire* or, on the other hand, a vigorous suppression of symptoms is all that is necessary to cause things to 'come right'.

The roots of this disease, then, are as follows:

1. Wages, salaries, and dividends will not purchase total production. This difficulty is cumulative.
2. The only sources of the purchasing power necessary to make up the difference are loan and export credits.
3. All industrial nations are competing for export credits. The end of that is war.
4. The major distribution of purchasing power to individuals is through the media of wages and salaries. The preponderating factor in production is improving process and the utilization of solar energy.
5. This latter tends to displace wages and salaries and the consequent distribution of the product to individuals. The credit factor in purchasing power thus increases in importance and dominates production.
6. This production is consequently of a character demanded by those in control of credit and is capital production.
7. The fundamental derivation of credit is from the community of individuals, and because individuals are ceasing to benefit by its use it is breaking down.

(The Control and Distribution of Productivity 22-24)

National Credit and Public Need

There is no doubt whatever, and I do not suppose that anyone at all familiar with the subject would dispute the statement for a moment, that the present trade depression is directly and consciously caused by the concerted action of the banks in restricting credit facilities, and that such credit **79** facilities as are granted have very little relation to public need; that, whatever else might have happened had this policy not been pursued, there would have been no trade depression at this time, any more than there was during the War; and that the banks, through their control of credit facilities, hold the volume of production at all times in the hollow of their hands. You will, of course, understand that no personal accusation is involved in this statement; the banks act quite automatically according to the rules of the game, and if the public is so foolish as to sanction these rules I do not see why it should complain.

(The Control and Distribution of Productivity 21)

In regard to the mechanism by which the situation can be put right, the main principles arise directly out of a consideration of the disease and are quite simple. There are three; (1) That the cash credits of the population be equal to the collective cash prices for consumable goods for sale in that country (irrespective of the cost price of such goods), and such cash credits shall be cancelled or depreciated only on the purchase or depreciation of goods for consumption. (2) That the credits required to finance production shall be supplied not from savings but from new credits relative to production, and shall be recalled only in the ratio of general depreciation to general appreciation. (3) That the distribution of cash credits to individuals shall be progressively less dependent on employment, that is to say that the dividend shall progressively displace wages and salaries as production keeps increasing per man hour. *(Warning Democracy 34-35)*

Foreign Competition and Home Demand

A feature of the industrial economic organization at present is the illusion of international competition, arising out of the failure of internal effective demand as an instrument by means of which production is distributed. This failure involves the necessity of an increasing export of manufactured goods to undeveloped countries, and this forced export, which is common to all highly developed capitalistic States, has to be paid for almost entirely by the raw material of further exports. Now, it is fairly clear that under a system of **80** centralized control of finance such as that we are now considering, this forced competitive export becomes impossible while at the same time the share of product consumed . . . becomes increasingly dependent on a frenzied acceleration of the process. *(Economic Democracy 144)*

The world, at the present time, operates under a financial system which is in essence a book-keeping system controlling the necessities of life. This book-keeping system produces an illusory necessity for an excess of exports over imports in the case of every industrial nation, the penalty of failure to increase this balance of exports over imports being an increasing unemployment problem.

This situation is mathematical in origin, and, as it were, merely provides a combustible background for an international conflagration without in itself selecting the nations involved. Proceeding from this situation, however, it is recognized that an aggressive psychology is an asset tending towards, at any rate, temporary success in this struggle for commercial supremacy, which is the polite term applied to the conflict. It follows fairly naturally, therefore, that a successful period of commercial expansion has a strong tendency to be accompanied by an aggressive attitude in Foreign Policy. (*Warning Democracy* 119)

It must be evident therefore that an economic system involving forced extrusion of product from the community producing, as an integral component of the machinery for the distribution of purchasing power, is entirely incompatible with any effective League of Nations, because the logical and inevitable end of economic competition is war. (*Economic Democracy* 145)

Attempts to 'Restore' Foreign Trade

So long as it was possible to keep the subject of credit away from public discussion it was done, and done well. But merely negative opposition, in the nature of things, being bound to fail, a positive line of action has been elaborated and is now well under way – the exploitation of public credit for export purposes. Apart from the Ter Meulen and Mountain 81 schemes, the Government (i.e. Zaharoff-Sassoon) proposals for dealing with 'unemployment' are based fundamentally on an export credit scheme buttressed by relief works at home, the latter to be financed out of taxation. . . . The proposal involves the pledging of public credit to the extent of (at first), say £25,000,000. . . .

That is to say, although the productive capacity of the industrial nations was so enormous that it overtook the wastage of a four and half years' war in eighteen months, so that two and a half millions are unemployed in this country, and probably six millions in America, (Written in 1922. The schemes discussed above are, of course, no longer topical, but similar proposals to finance export by the public credit are rife in this and other countries. (Ed.) the energies of the nation are to be employed, not in obtaining the maximum benefit from its existing plant, but in producing still more plant to be exported in competition with countries similarly situated.

This £25,000,000, then, will be paid out in this country as wages, salaries and dividends, entirely unrepresented by any goods for which the general public has any demand whatever. The money so paid out, therefore, represents pure inflation, and, being unaccompanied by any method of dealing with prices, means the inevitable result of pure inflation – a rise in prices. In other words, the goods exported under these conditions are paid for by the general public through the agency of a general rise in prices, but not delivered to them, but the credits, if ever repaid, are repaid not to them, but to the banks who will finance these credits. And as at the same time these exports will be in fierce competition with similar goods from, say, America, preparations for the coming war will naturally be accelerated. (*The Control & Distribution of Productivity* 173-5)

Exports and Imports; and the only possible Freedom of Trade

Consider the present situation. It is true enough, as our super-industrialists and orthodox economists are always telling us, that imports are paid for by exports, but on the whole they are content to leave it at that. They do not explain, for instance, how a population which most 82 certainly cannot, and does not, buy its own total production for cash (if it could, there would be no necessity either for home or export credits, and no 'unemployment' problem), can become able to buy the imports which are exchanged for the unpurchasable surplus. They do not, again, explain how a textile worker, paid wages for converting a bale of raw cotton worth, say £20, into goods worth, say, £60, can benefit if in return for these manufactured goods two more bales of raw cotton at £40 are received – a condition common to trade booms. Nor do they generally publish the fact that English machinery is often sold to export agents abroad at far lower prices than those at which the same machinery can be obtained at home, or that it is possible to buy, in the bazaars of Bombay, a shirt made in Lancashire, for a quarter the price at which the same shirt can be bought in Manchester.

The simple facts are that, under existing arrangements our principal preoccupation is the provision of employment – the making of work. On this simple canon hangs the law and the profits. When, therefore, a locomotive is required for the Argentine, and assuming for the moment that it is in any sense, sold in the open market, there is a competition, open to the industrial nations of the world, to *sell* locomotives and to *buy* wheat, with the usual and logical result that wheat appreciates in price in terms of locomotives, the industrial exporting

country continually gives more, and the exporting agricultural country continually less, economic energy in every bargain.

That is the proposition in a nutshell. In order to make a bargain which is just – i.e. judicious – the industrial nation must be restored to the position of a free, not a forced, seller, just as to restore social equilibrium inside the nation the individual must be put in the position of a free, not a forced worker. The arrangements which would fulfil these desiderata are already sufficiently familiar in principle. *The Control and Distribution of Production 85-7)*

83 ILLUSIONS OF NATIONALIZATION

The capitalistic system in the form in which we know it has served its purpose, and may be replaced with advantage; but in any social system proposed, the first necessity is to provide some bulwark against a despotism which might exceed that of the Trust, bad as the latter has become. In our anxiety to make a world safe for democracy it is a matter of real urgency that we do not tip out the baby with the bath water, and, by discarding too soon what is clearly an agency which can be made to operate both ways, make democracy even more unsafe for the individual than it is at present.

(Economic Democracy 21)

Parties which would appear superficially to be separated by aims utterly divergent, such as, let us say, the German military party and the Fabian section of the British Labour Party, are found on close analysis to have identical objectives – the domination of a system over all effective individual dissent. In each case the steps to the achievement of the end consist in depriving the individual of economic independence either by vesting physical control in the State (conscription) or by ‘Nationalizing’, through grinding taxation or otherwise, the means of production and abolishing all purchasing power not issued, on terms, by the State.

(Credit Power and Democracy 145-6)

Under such a system the ordinary citizen might, and probably would, be far worse off than under private enterprise freed from the domination of finance and regulated in the light of modern thought.

(Economic Democracy 21-22)

Ownership of the Means of Production

Any attempt either to socialize administration or to govern by economic coercion quite inevitably leads to centralized organization and centralized credit, resulting in all the well-known phenomena of inefficiency inseparable from the attempted subordination of the human ego to the necessities of a non-human system. The difference is the recognition of the 84 difference between beneficial ownership and administrative ownership. The managing director of the White Star Line was in beneficial ownership of the *Titanic*, he controlled the credit of it; but his attempt to interfere in its administration destroyed the *Titanic*

(Credit Power and Democracy 43-44)

A considerable and articulate body of opinion has committed itself to the belief that the root of the trouble lies in the private ‘ownership’ of the means of production, by which presumably is meant the plant, raw material, etc., and that in consequence the remedy is to be found in Nationalization. . . .

Before considering the prescription, it may be valuable to consider what can be conveyed by the term ‘ownership’ in connection with such a concern as a boot factory, at the present time.

(Credit Power and Democracy 51-52)

The ownership of a factory may be said to consist in taking the profits, if any, of it, in the power of appointment of its administration, and in the power of divesting oneself of the ownership by sale or otherwise. Now a little consideration will, I am sure, convince you that the majority of people only desire ownership of any such thing as a factory for one reason, and that is the profits which may be obtained from it. These profits take the form of money, and money is the financial embodiment of something which we call ‘Credit’.

(Warning Democracy 25-26)

Taking the simplest case of a one-man ownership, the owner might live in the factory, if he wanted to, or he might burn it down if it was not insured, or otherwise destroy it, in all of which cases it would cease to be a boot factory; or he might appoint himself manager, or he might sell it, in which case he would cease to own it. The essential point is that, considered as a boot factory, it is not of any direct use to its owner after he has had half a dozen pairs of boots out of it each year. What, however, *is* of value is, firstly, the money-value (i.e. credit-value) of it, which is entirely based on his power to make prices for its product in excess of its costs, and secondly, the pleasure which the control of it gives him.

Take away his power to make prices for its product in excess of its costs, 85 and you have taken away all its property value, leaving only the administration value. Such a state of affairs can be brought about without legislation by selective financing. However it is brought about, the fact that it is possible proves indisputably that it is the credit, and not the physical property, which has given private 'ownership' so powerful a grip on the community.

(Credit Power and Democracy 51-53)

That from the misuse of the power of capital many of the more glaring defects of society proceed is certain, but in claiming that in itself the private *administration* of industry is the whole source of these evils, the Socialist is almost certainly claiming too much, confounding the symptom with the disease, and taking no account of certain essential facts. It is most important to differentiate in this matter, between private enterprise utilizing capital, and the abuse of it.

(Economic Democracy 19-20)

The Genuine Urge in Socialism

It is, therefore, I think, important to endeavour to isolate the nature of the genuine urge at the root of the socialist movement, in order to find, if possible, a mechanism which is compatible with its attainment. This is not by any means so easy a matter as it might seem, partly because men and women have an unfortunate habit of clamouring for things by names that they do not understand.

(Warning Democracy 23)

State Socialism is based on the premise that, firstly, the control of policy is resident in administration, and, secondly, that it is possible to 'socially' control administration, and thirdly, that the State should be able to supply economic pressure to the individual; whereas I suggest to you that the control of policy is resident in credit (fundamentally, in the belief in the beneficial outcome of any line or action) and its financial derivations of which money is one, while administration is a technical and expert matter not susceptible of being socialized, and, lastly, that the only possible method by which the highest civilization can be reached is to make it impossible for either the State or any other body to apply economic pressure to any individual.

(The Control and Distribution of Production 43)

86 Centralized Control in Industry

We are faced with an apparent dilemma, a world-wide movement towards centralized control, backed by strong arguments as to the increased efficiency and consequent economic necessity of organization of this character (an these arguments receive support from quarters as widely separated as, say, Lord Milner and Mr Sydney Webb [Lord Passfield]), and, on the other hand, a deepening distrust of such measures bred by personal experience and observation of their effect on the individual.

(Economic Democracy 37)

Because the control of capital has given power, the effect of the operation of the will-to-power has been to accumulate capital in a few groups, possibly composed of large numbers of shareholders, but frequently directed by one man; and this process is quite clearly a stage in the transition from decentralized to centralized power.

(Economic Democracy 24)

Now it may be emphasized that a centralized or pyramid form of control may be, and is in certain conditions, the ideal organization for the attainment of one specific and material end. . . . The advantage accruing from the use of it for the attainment of one concrete objective, such as, let us say, the coherent design of a National railway or electric supply system (just so long as these objects are protected from use as instruments of personal and economic power) is quite incontrovertible; but every particle of available evidence goes to show that it is totally unsuitable as a system of administration for the purposes of governing the conditions under which a whole people lives.

(Economic Democracy 18-19)

This type of organization carried out to its furthest limits is pyramid control in its simplest form, and it is clear that successive grades or ranks decreasing regularly in the number of units composing each grade, until supreme power and composite function is reached and concentrated at the apex, are definitely characteristic of it.

The next step is to split the functions of the higher ranks so that each unit therein becomes the head of a separate little 87 pyramid, each of which as a whole furnishes the unit composing a larger pyramid; in every case, however, eventually centralizing power and responsibility in one man, representing the power of finance and of control over the necessities of life.

(Economic Democracy 48-49)

Several points are to be noticed in the conditions produced by such an arrangement: Firstly, there is a fundamental inequality of opportunity. The more any organization, whether of society as a whole or any of the various aspects of it, approaches this form the more certain is it that there cannot possibly be any relation between merit and reward – it is, for instance, absurd to assume that there is only one possible head for each railway company, Government Department, or great industrial undertaking. There is no doubt whatever that the intrigue which is a commonplace in such undertakings has its roots almost entirely in this cause, and contributes in no small degree to their notorious inefficiency.

Another objection which becomes increasingly important as the concentration proceeds is the divorce between power and detail knowledge. This difficulty is recognized in the appointment of official and unofficial intelligence departments which, of course, are in themselves the source of further abuses.

(Economic Democracy 49-50)

The 'efficiency' of very large undertakings is a paper efficiency based on access to credit, bulk buying, and price making, and in many cases has no physical basis, the genuine efficiency of the smaller undertaking being frequently higher.

(Macmillan Report)

It is a most astonishing fact that the experience of hundreds of thousands of men and women in such departments as the Post Office, where real discontent is probably more general, and the material and psychological justification for it more obvious, than in any of the more modern industrial establishments, has not been sufficient to impress the public with the futility of mere nationalization. This is not in any sense a disparagement of the excellent qualities of large numbers of 88 Government officials; it is merely an attempt to indicate the remarkable facility with which well-intentioned people will allow themselves to be hypnotized by a phrase.

(Economic Democracy 23)

Nationalization without decentralized control of policy will quite effectively install the trust magnate of the next generation in the chair of the bureaucrat, with the added advantage to him that he will have no shareholders' meeting.

(Economic Democracy 25)

Nationalization means nothing more than centralized control of credit, the objective for which high finance in every country is striving, with as plausible a motive as, say, the Miners' Federation, and more technical capacity.

(Credit Power and Democracy 57)

Labour Share in Control

In the face of the determination of organized Labour to 'share in the control of industry', see how a broadminded Press agrees with them. It is all for a Guild Socialism of the glorified Whitley Council variety. The columns of any metropolitan newspaper in England or America are open to the description or discussion of such 'committee' schemes, and will print reams of articles by their more distinguished advocates, even where they condemn their conclusions. From which the cynically-minded may justifiably conclude that there is no danger to capitalism in a bushel of them. *(Credit Power and Democracy 5-6)*

The Real Problem of Industry

It will be seen, therefore, that we have in the industrial field a double problem to solve: while retaining the benefits of mechanism for productive purposes to obtain effective distribution of the results and to restore personal initiative

It is clear that if we replace the foreman, the manager, and the chairman, each by a committee, all that we do is to affirm our belief that it is better to have half a dozen men giving orders than one man – a belief that may or may not be well founded, but, in any event, is not likely to result in the democratic control of production. The shareholders, it is true, are already a committee, and would seem at first sight 89 to have no master; but how much latitude in making decisions have they?

Now, this is the citadel of the fortress we are attacking, *for power to make decisions, is freedom for the individual*, and a shareholder in a trust-capitalistic manufacturing enterprise has no power to change the fundamental policy of the concern, *which is to pay its way as a means to the end of maintaining and increasing its financial credit with the banks.* (Credit Power and Democracy 6-7)

I am not here in any way to defend those persons who are referred to as ‘captains of industry’; in many cases they are men of quite extraordinarily narrow abilities, but I have, for my own part, no doubt whatever that any attempt to replace them *en masse* is quite unpracticable. If you could imagine any of the orthodox socialistic schemes to come into operation in this country – which I am quite sure they never will – it is a matter of almost mathematical certainty that within five years you would see about 75 per cent of the same persons filling what would be, in essence, the same executive positions under different official titles.

If you accept these statements as being a fair presentation of the situation, you will agree that only one conclusion can be drawn from them, and that is, that it passes the wit and the capacity of human beings to obtain generally satisfactory results from the existing financial system, and that no mere change in persons could be expected to produce an acceptable result.

(The Breakdown of the Employment System 4-5)

The only claim which any individual or collection of individuals has to *operate* and administer the plant of society is that they are the fittest persons available for the purpose. This can only be the case where there is natural attraction between a man and his work, because no man or woman ever excelled at any pursuit for which they entertained a dislike when in competition with numbers of persons who added to equal capacity an affinity for their occupation. Secondly, that as the operators, though vital to the result, are only one of the factors contributing to the result and by no means the most difficult factor to replace, they are not, as operators, 90 concerned with either what is produced, who produces it, or who gets it when it is produced; that is the business of those who provide the reason, the inducement to produce – the individuals who collectively compose society.

(Credit Power and Democracy 113-4)

In order to arrive at a sound conclusion in these matters it is necessary to start where all things start – in Nature – and to decide what are the motives which actuate men in this connection with the economic and industrial systems; and it is true, as well as proverbial, that self-preservation is the first law of Nature. Man does not live by bread alone, but he does not live very long without a reasonable amount of food, clothes and shelter. Secondly, and subsequently, he requires, and this increasingly, an outlet for the creative spirit. It may be noted in passing that it is just at this point that the ‘intellectual’ is apt to fail in interpreting the great mass of humanity engaged in a deadly grapple with the weekly household bills, a battle which must in most cases be won decisively before the surplus energy becomes available for the satisfaction of the need of self-expression.

(The Present Discontents and the Labour Party 7)

The Objective of Industrial Reform

- (1) The existing difficulties are the immediate result of a social structure framed to concentrate personal power over other persons, a structure which must take the form of a pyramid. Economics is the material key to this modern riddle of the sphinx because power over food, clothes, and housing is ultimately power over life.
- (2) So long as the structure of Society persists, personality simply reacts against it. Personality has nothing to do with the effect of the structure; it merely governs the response of the individual to conditions he cannot control except by altering the structure.
- (3) It follows that general improvement of *conditions* based on personality is a confusion of ideas. Changed personality will only become *effective* through changed social structure.
- (4) The pyramidal structure of Society gives environment the maximum control over individuality. The correct objective of any change is to give individuality maximum control over environment. (Economic Democracy 98-99)