MONEY AND INDUSTRY

Major Douglas first published his *Social Credit* in 1924. A third edition, revised and enlarged, has now appeared* and may be accepted as the author's maturest exposition of his theory that in the course of production under the present financial and costing system it is physically impossible for there to be sufficient money tokens to buy the goods produced. Chronic and inevitable shortage of money tokens is, according to Major Douglas, the cause of the inability of the community to buy all that it produces. How comes the shortage ?

This book is written to give the answer, though the writer's style is very often so cryptic that the ordinary lay reader may well be excused if he fails to understand it.

Before dealing with the explanation now given, we have to note that it is not the same as that advanced in Major Douglas' earlier works, namely, his *A* plus *B* theorem. That *A* plus *B* theorem was that the cost to any particular business of the goods it produces is made up of *A* which is the wages, salaries, commission, dividends, etc., it pays out, plus *B* which is its payments for plant, raw materials, etc. It was alleged that only the *A* payments constitute purchasing power and consequently the people engaged in the business cannot pay for all the goods produced, since their price is made up of *A* plus *B*, and this being true of any one business, must be true of all businesses. This was then hailed as an important discovery and proof that our troubles are due to shortage of money and not of goods.

In this latest edition, no mention is made of the *A* plus *B* theorem. It seems to have been abandoned since the alleged necessary shortage of money tokens under "the cost system" is accounted for in quite another way. The explanation now is that savings and bank credits are accountable for the shortage of money tokens, *i.e.*, purchasing power, for it is stated that—

> "Even 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 (*i.e.*, if it were saved and invested) immediately there is a disparity between the total costs, which are the minimum total prices of the goods, and the amount of money in the world which would, *ex hypothesi*, be the same as before."

This is to say that saving causes the shortage for each pound saved and put into new production is a pound withdrawn from consumption.

This shortage of money for consumption is bad enough, but Major Douglas claims that it is aggravated by the issue of bank credits. The deficiency between purchasing power and goods "with money prices attached to them" can, he says, be made up by creating bank credits, but the repayment of these credits, unaccompanied by the destruction of the articles produced as a result of their creation at once "immobilizes an equivalent body of price values," so that the articles to which the prices refer cannot be sold for there is no money to buy them with, it having been repaid to the banks. Saving with a view to investment in capital goods (instead of consumption) facilitated by bank loans is, therefore, at the bottom of the trouble, Major Douglas believes.

But surely this fails to cover the whole ground, for men save to-day to spend to-morrow, so while it is true that one cannot spend to-day what one saves to-day, it is also true that what others saved yesterday they are spending to-day, thus taking the place of to-day's savers.

And as to bank credits which Major Douglas holds to be created by the banks from nothing by "a stroke of the pen," a bank is only able to give credit to one man because of the funds entrusted to it by others. Were these funds absent, credit could not be granted. Though Major Douglas strenuously denies this we cannot but think that there is more in the matter than a mere "stroke of the pen." Moreover, when the bank withdraws its loan, though it is true that the purchasing power of that particular borrower is by so much reduced, it is also true that the purchasing power of someone else is increased, for the bank is then in a position to make some fresh loan elsewhere. The sum of purchasing power is, therefore, not affected either way. It seems to us that, in essence, there is no difference between a bank loan and any ordinary private loan—neither is created from nothing by "a stroke of the pen."

But this whole question of saving and investment in capital undertakings to which Major Douglas now attributes so much evil, begs the real question. He points to the unduly large investment of savings in machinery for the manufacture of new goods by "the fortunate few" and implies the inability of the masses to save anything at all. It is not asked *Why* this great disparity of fortune exists. Major Douglas seems never to have gripped the vital importance of finding an answer to this fundamental question.

In one chapter he shows clearly that National Debts would be a futile absurdity were wealth anything like evenly distributed. They are possible only because of the very uneven distribution of wealth. It is a pity he does not apply the same thought to saving and bank loans. For is it not true that if every man got his deserts these "more fortunate members of society" who make the investments in machines to produce more goods could not exist, and general expenditure on consumption goods would take the place of savings by the "fortunate few" now invested in capital undertakings ? This would not necessarily mean stoppage of investment but would certainly act as an automatic check on carrying investment to excess, so that a glut of consumption goods, if not altogether avoided, would at least be much reduced. If purchasing power were equitably distributed, is it not also probable that a self-acting principle would operate by which a certain amount of saving for investment in new production would be indulged in by *all* and that the remaining purchasing power would automatically adjust itself to the goods available for consumption ? If it turned out that the goods could not all be bought this would check further saving and investment in machines for more production, for it is absurd to think that goods would continue to be produced which by hypothesis cannot be sold. If on the other hand there were not goods enough, saving and investment in capital goods would be stimulated, and more goods produced. Surely a little more trust might be shown in the beneficent working of natural law *when given a fair chance*. But this fair chance is denied so long as the present monstrous artificial disparity in fortunes is allowed to continue.

Before we can hope to solve our problem we have, therefore, to trace this artificial disparity to its source, and in this book we find no trace of any such effort. The existence of "the fortunate few" with all its consequences is simply taken for granted, and the situation then dealt with as if it were normal.

Major Douglas' diagnosis is the diagnosis of a pathological condition. He does not realize that he is dealing with a diseased society and not with the normal healthy one that would exist were economic laws allowed free play. He is like a doctor who examines a man in consumption, and jumping to the conclusion that the symptoms observed are also to be found in normally healthy men, prescribes for them, too, as if they also were in consumption. Accepting the great disparity of fortune as a normal condition, he attributes inability to buy what is produced to shortage of money tokens and for him, therefore, the logical remedy is either to increase the number of these tokens without raising prices or to reduce prices without reducing wages. It is unfortunate that, in this book, he is very obscure as to how this is to be done. We can only gather roughly that he would (to use his own words) "relate the money issued to the goods against which it is issued by relating prices to costs, and relate the value of the unit in which costs and prices are computed to the changing ratio between production and consumption." We leave the reader to unravel that puzzle.

According to Major Douglas the great problem of adjustment of consumption to production is to be solved through manipulation of the financial system. We cannot think he is right. However desirable may be a reformed money system, its coming will not in the end rid us of the artificially created inequality of wealth which is the necessary accompaniment of a landless people.

* *Social Credit.* By C. H. Douglas (Eyre & Spottiswoode, 2s. 6d.).

The law of rent may not be ignored. An improved currency would act in the economic sphere just as all other improvements in the arts and sciences have acted in the past and are now acting—it would increase the value of land. That is, so long as we permit economic rent to flow into private purses, the reform would increase the toll levied on the many by "the fortunate few" for leave of access to the source of all production. Until this flow of economic rent is guided to its proper channel so as to be shared by all the people, "the fortunate few" and the impoverished many will continue to face each other and the hopes based on the better currency sooner or later be brought to naught.

In certain connections Major Douglas in a way senses this truth from afar though not in its implications—as where he insists that knowledge of the arts and sciences, handed down to us from past generations is now much the most important factor in production and is a "cultural legacy" *from which all men are equally entitled to benefit.* That in fact they do not so benefit, he attributes to the obsolete and defective financial system he sets out to reform. What he fails to realize is that the value of this "cultural legacy" to which the whole community is entitled is exactly expressed in the value of land. This knowledge inherited from the past has taught us most of what we know and without it we would revert to the savage state in ignorance even of the spade or the wheel. Ages of experiment and research by our forbears have taught us how to harness the elements in our service. Thus have they handed down to us knowledge how to sink shafts thousands of feet into the bowels of the earth so that minerals till now inaccessible are devoted to our use and *mineral land has acquired great value* in consequence. Experiment and research of past generations enables us to build into the sky so that multitudes can congregate on minute areas of land *and the sites on which great cities stand have acquired fabulous value* in consequence. And so on all round, our cultural legacy from the past is expressed in the value of land, and the toll levied for access continues to mount.

Were this truth impressed on Major Douglas we think he would agree that when this land value fund is turned into the public treasury all will share alike in our "great cultural heritage," and the artificial disparity in wealth which gives rise to the trouble he seeks to cure through adjustment of money tokens will be dealt with at its source.

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