The True National Dividend

Pros and Cons of Social Credit

BY
W. R. LESTER, M.A.

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THIS Pamphlet is a revision and expansion of the Author's *Poverty and Plenty*, published in 1935 by the Hogarth Press. That edition being exhausted, opportunity has been taken here to make some rearrangement of the order in which the argument is presented and to amplify it at various points.

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THE TRUE NATIONAL DIVIDEND

THE Social Credit movement, led by Major C. H. Douglas, throws out a challenge to which every thinking man must respond. Its supporters look out on a world with needs of every kind unsatisfied, and with factories closed or working below capacity, while vast numbers of efficient men, asking for nothing better than leave to produce, stand idle. They draw attention to the fact that though abundance is now possible for all, artificial restriction removes it from our reach. They find, in a word, that though we can with the greatest of ease produce everything desired, poverty or fear of poverty is the common lot.

Social Crediters claim to have discovered the reason for this state of matters and the sovereign remedy which, if adopted, would place ample purchasing power into the hands of everyone, put an end to poverty, and usher in an era of lasting peace between the nations. They claim to have discovered a fund of wealth which arises as civilization advances, apart from and in addition to what any individual produces. This, they claim, should be distributed equally to every member of the community. It is "Social Credit," created by organized society, the benefit of which should come to every citizen through what is named "The Just Price" and "The National Dividend." They deserve credit for having persuaded many who till now have given no thought to such matters, to turn their minds to this tragic problem of poverty amid potential plenty and although our analysis may in some things disagree with theirs, it will be found to give a deeper significance to one phase at least of their teaching.

Social Credit Doctrine

The doctrine may be said to have two sides: (1) the philosophic or humanitarian and (2) the economic or constructive. It is only with the latter that this examination will deal.

The fundamental principle of this theory is that our troubles are due not to lack of wealth nor even to an uneven and inequitable distribution of wealth, but to the existence of a surplus of wealth that cannot at present be distributed. This inability is traced to an inherent defect in the monetary or financial system. Lack of money and a "wrong system of costing," as they describe it, are the source of all our failures. They claim to have discovered that under the present financial and costing system the aggregate of the prices of all the goods on the market must always be greater than the aggregate of incomes; that is to say that all incomes put together never can be great enough to buy all the goods produced. They say that the present financial system fails to distribute enough money and therefore enough purchasing power, and that from its very nature it cannot possibly do so.

> It is a fact that never during the last 50 years has any industrial country been able to buy its own production with the wages, salaries and dividends available for that purpose and all industrial countries have been forced in consequence to find export markets for their goods.—*Social Credit*, p. 19, by Major Douglas.

> The difficulty lies in the financial system and this difficulty arises not through lack of goods but through lack of purchasing power. Purchasing power is simply a question of tickets, and what we have to do is to get into the ticket system with the single object of producing and arranging that people shall get more purchasing power.—Address by Major Douglas to Canadian Club in Ottawa.

"Simply a Question of Tickets"

Major Douglas says that "purchasing power is simply a question of tickets." This is the core of the Social

Credit doctrine. It says in effect that more money must be put into circulation, so that no one will be without the necessaries and comforts of life ; and that by the increased supply and use of money the consumption of wealth will not only be greatly increased but will be spread over all classes in the community. This is by no means a new idea. It is as old as the hills, but Social Crediters have given it an original setting with their theory that industry produces an unconsumed surplus of goods which only waits to be bought up by the necessary " tickets " or money tokens that society could so easily provide. We do not find that the theory investigates the reasons for the present mal-distribution of money and wealth—who gets little and who gets much, and why—and when it comes to examination of the plans proposed we shall be bound to enquire how the extremes of riches and poverty in present-day society will be affected.

But this is anticipating the argument. Let us first examine the defect that Social Crediters claim to have discovered in the monetary system, so serious that goods are piled up which nobody can buy, and bringing about the glaring anomaly and injustice of poverty in the midst of abundance.

The A plus B Theorem

Social Crediters maintain that under present financial arrangements there arises a chronic and inevitable shortage of purchasing power owing to the lack of enough money to buy what is produced. The money tokens handed out in the course of production are said to be permanently deficient. How does this happen ? It is explained as follows by Mr H. M. Murray whose statement is specially commended by Major Douglas in these words :

> Many attempts to simplify the thesis have been made. Some of them have been simple without being sound ; some have been sound without being simple, and numbers

of them have been neither sound nor simple. I believe that H.M.M. has achieved both soundness and simplicity.

So here is Mr Murray's statement:

> Take any business you like, and analyse its costs and you will find that they can be divided into two groups; inside payments and outside payments. Inside payments are the wages, salaries, commissions, dividends, directors' fees, etc., paid to all individuals associated with the business—employers and employed—and constitute their incomes. Outside payments are payments made to other firms for plant, raw materials, oncost charges, etc., and these payments are not income so far as the paying firm is concerned, yet the selling price of its products is the sum both of the inside and outside payments. It follows that the people in that business cannot buy all they produce. Receiving an income representing the inside payments alone, they cannot pay prices made up of both inside and outside payments; it follows, then, that the income of the community is insufficient to buy all the goods it produces.—*An Outline of Social Credit,* by H. M. Murray.

To illustrate: A bootmaking factory pays out £1,000 in wages, salaries, dividends, etc. (these are called its A or inside payments), and buys raw materials such as leather from the tanner (these are called its B or outside payments) costing another £1,000. Then the price at which the goods come on the market must be at least £2,000. But, so the theory goes, the money paid out to employees, etc., in the boot factory, and therefore their power to purchase, being only £1,000, cannot provide this selling price of £2,000. £1,000 worth of boots must therefore remain unsold. Cost price is made up of A plus B. Purchasing power is only A; and as A alone cannot pay prices which embody both A and B, an inevitable and chronic deficiency of purchasing power results. Social Crediters deny that the wages, salaries, dividends, etc., *paid out by the tanner* can be used to buy boots made from the leather. Only the wages, salaries, dividends, etc., *paid out by the boot-*

maker can, they say, so be used. One would have thought the tanners' wages and salaries could be so used, but Social Crediters are emphatic to the contrary, and, indeed, the denial forms their main case. This is Major Douglas's famous "A plus B Theorem," acclaimed by Social Crediters as an epoch-making discovery, to be ranked among the greatest of all time.

On this "A plus B Theorem" the whole Social Credit case stands; so if on careful examination it is found to be untenable, the very elaborate structure built on it, "Just Price" and "National Dividend" with the rest, falls to the ground. Therefore we make no apology for dealing with it at length.

Insufficient Purchasing Power

We are invited to take "any business we like" and are told it will be found that the wages, salaries, dividends, etc., paid out are less than the value of the output of *that particular business*. But this does not explain any shortage of purchasing power so far as the *whole community* is concerned. It only says what is perfectly true, and almost ridiculously so; because if it were the case that the "wages, salaries and dividends" paid out by any particular business were equal to the value of the output, then those who supply the raw materials, the plant and machinery and keep it in repair, would get nothing at all. That it is absurd to expect the wages, etc., paid in *any particular business* to equal the value of its output can easily be seen if we take the case of, say, a bicycle assembler who buys parts costing £9, pays £1 in wages, etc., for assembling them, and sells the bicycle for £10. According to the A plus B theorem, the only purchasing power provided is the £1 earned by the men in the assembler's business. It is denied that those who earn £9 in making the parts assembled provide any purchasing power at all for the finished bicycle. If that were truly the case it would be impossible to sell nine out of every ten bicycles

assembled! This leads to the singular conclusion that if the bicycle assembler made the parts himself instead of buying them, so that the completed bicycles were made in one factory instead of in a number, there would then be ten times as much purchasing power available to purchase them!

The first mistake in this statement is in not seeing that the people engaged in the industry, the people who receive the "inside (A) payments" cannot expect to get, and are not entitled to get, more than the value they have added by their efforts to the raw materials with which they were supplied by other producers. If they did, they would be robbing the latter of their earnings and depriving them of purchasing power. The facts are in direct opposition to what is stated. The people in the business, far from being unable to buy all they produce, take out of the business every penny of value they add to the raw materials, and this is distributed among them in wages, salaries, dividends, etc. When the bootmaker buys leather from the tanner he makes a B payment. It is too great a strain on our credulity to ask us to believe that the tanner cannot use this money to buy boots from the bootmaker.

The second mistake in the Social Credit statement is in drawing the conclusion that because these inside or A payments in *each industry taken by itself* are less than the value of the output of that industry, therefore the income of the whole community is insufficient to buy all the goods that are produced in *all industries taken together*. Though it is true that the wages, salaries and dividends of any *one* industry are insufficient to buy the output of that industry, it is *not* true that the wages, salaries and dividends of *all* industries are insufficient to buy the output of *all* industries. The fact is they actually do so, as everybody well knows. As well might it be argued that because a subsidy from the public exchequer raises the income of *any one industry*, looking at it apart from other industries, the

income of *all industries* will be raised if *every industry* is subsidized. Or as reasonably might we say that because the people working for a tailor cannot wear all the coats produced by that firm, therefore the whole community cannot wear all the coats produced in the community. The fallacy is in arguing from the particular to the general and completely neglecting, as part of the community's income (and therefore, of the general purchasing power), the B payments for raw material, machinery, plant, repair and upkeep that go into the pockets of some people and provide wages, salaries and dividends for them.

Alternative Statement of A plus B Theorem

The unreasonableness of suggesting that what are called the inside or A payments should equal the total value of the output, together with the inference that there should be no payments whatever for the goods and services supplied by one industry to another, evidently troubles Social Crediters themselves; so they proceed with a new and curious line of argument, namely the "Time Lag" argument which lays it down that the B payments for plant and raw materials along with the wages earned in their production were made and spent in a previous period that is now over and done with, and that they cannot be spent again now. It will be noted that this is a virtual abandonment of the A plus B theorem as at first presented, which attributed inability to buy what is produced to the fact that the A (inside) payments are too *small*. We are now told—not that the payments are too small—but that they are made at the *wrong time*.

In passing it should also be noted that this theory cannot apply to large fields of modern industry, even if each industry is examined in isolation. In all cases where one firm carries production through all its stages from the raw material to the finished article the theory is, quite clearly, ruled out of court. In Ford's factory, for example,

finished cars are being turned out from one end of the factory at the same time that the unfinished parts from which the cars are built are being made in another. In all such cases there is no " time lag." Does Major Douglas seriously say that the wages paid to blast-furnacemen in Ford's cannot be spent in buying finished cars? But ignoring plain facts like this, Social Crediters would separate into periods each industrial operation such as the making of boots from the making of leather; the milling of flour from the growing of wheat; the churning of butter from the production of milk; the baking of bricks from the digging of clay; the weaving of blankets from the growing of wool; and logically the cooking of meals from the raw meat and vegetables used. Thus, they contend, the tanner, having tanned leather and paid his men as well as himself, cannot buy the boots made from the leather he has sold to the bootmaker because he has received and spent his money before the boots were ready for sale. Nor can the miller buy the baker's bread, nor the farmer the miller's flour, nor the butcher the meal cooked by the restaurant keeper from meat he sold him last week.

Reductio Ad Absurdum

As well might it be suggested that there is a surplus of soup unconsumed, because the growing of vegetables or the cutting up of bones and the boiling of water took place during a period that is over and done with, and the only purchasing power now available is the wage given to the kitchen hand. All this overlooks the fact that production is a continuous process not divisible into separate periods. While wheat is being grown, ships are being built to carry it; while men are making boots, other men are raising cattle to supply leather. But the argument we are examining overlooks all this and assumes that the articles named are not constantly and continuously being exchanged with one another. It does not recognize that in fact bricks buy boots, blankets buy

milk, and bread buys iron, wood, paper and everything else in every stage of manufacture from the raw material to the finished article. In other words, it is the supplier of one class of goods who demands what someone else is producing. It is only if a man is unable or is prevented from producing things that his power to consume comes to an end.

> And so the man who is following the plough—though the crop for which he is opening the ground is not yet sown, and after being sown will take months to arrive at maturity—is yet, by the exertion of his labour in ploughing, virtually producing the food he eats and the wages he receives. For, though ploughing is but part of the operation of producing a crop, it *is* a part, and as necessary a part as harvesting. The doing of it is a step toward procuring a crop, which, by the assurance which it gives of the future crop, sets free from the stock constantly held the subsistence and wages of the ploughman. This is not merely theoretically true, it is practically and literally true. At the proper time for ploughing, let ploughing cease. Would not the symptoms of scarcity at once manifest themselves without waiting for the time of harvest ? Let ploughing cease, and would not the effect at once be felt in counting-room, and machine shop, and factory ? Would not loom and spindle soon stand idle as the plough ?—Henry George in *Progress and Poverty*, Book I, chap. iv.

These questions answer themselves. Every person while producing is setting up a demand for the goods produced by his fellow men. He is producer and consumer at one and the same time, and the creator of all the purchasing power that is or was or ever can be.

One more consideration before passing from this alternative " time lag " statement of the A plus B theorem. If it be true, as stated, that the wages received by makers of raw materials cannot be used to purchase the finished articles made from those raw materials *because these wages were received and spent before the finished articles came on the market,* then, for the same reason, a very great part

of the wages earned *by makers of many finished articles* cannot be used to buy them, for these wages were also received and spent long before the finished articles come on the market. Very many finished articles such as a house take months or even years to complete. So it would seem from this " time lag " theory that wages paid to the men who lay the foundations provide no purchasing power for the house itself because they were received and spent months before the house was finished. If Douglas is right, only the wages paid during the last week—say for the final touches of paint—can help to buy the house. In this way purchasing power practically vanishes altogether from the scene.

Disposal of the Surplus

The Social Credit doctrine holds that:

> The collective prices of goods for sale at any moment in a given community . . . cannot be met by the money available through the channels of wages, salaries and dividends at one and the same moment.

If this is true at " any moment " it must be true at all moments and therefore a continuous stream of goods must be pouring out for which there is no sale. Repeatedly it is stated that the income of the community is insufficient to buy the goods the community produces. Production is supposed to exceed consumption by the working of an inexorable machine so constructed that while it deluges us with goods it also absorbs and dries up purchasing power, and the community is doomed to perish in the sight of plenty. Well and good, but where is the surplus and what happens to it ? If it cannot find a market at home, is it shipped abroad ? Is it deliberately destroyed ? Or does it remain at home and glut the warehouses ?

Is the Surplus Exported ?

The idea that the surplus is exported or at any rate that part of it is disposed of in that way is expressed in the

passage we have already quoted from the writings of Major Douglas. He says that as a consequence of the inability of industrial countries to buy their own productions ("with the wages, salaries and dividends available for that purpose") these countries are forced to export their surplus goods thus giving rise to that struggle for markets which is a prime cause of war. Let us put this statement to the test. If we take the industrial country we know best, namely Great Britain itself, Major Douglas's argument is belied by the fact that imports not only balance exports but vastly exceed them. It cannot be said that this alleged surplus produced by the workings of the financial machine is explained away by forced exportation in view of the fact that our exports are replaced and more than replaced by the goods that come in. The financial machine must have reversed itself and elementary notions of international trade have been crushed in the process. The trade figures of Great Britain show that in 1935 goods to the value of £757 millions were imported, while goods exported were valued at £481 millions—an *incoming* surplus of £276 millions. In the five years 1931 to 1935, Great Britain imported £3,727 millions of goods and exported £2,216 millions—an *incoming* surplus of £1,511 millions. But to square with Major Douglas' theory there would have to be an *outgoing* surplus.

The excess of imports is in some part accounted for by goods received and sold to pay for shipping freights, insurance, commissions and other services rendered to persons outside the country, and in other part by goods sent from foreign countries to pay rent and interest to the inhabitants of this country who own property abroad. But with the course of international trade we have no concern here. It is sufficient to show that no "surplus" is made to vanish by exportation. Yet a word should be said about the struggle for markets, which is fought just as much to compel countries to send goods out as to force them to take goods in and be a dumping ground. Did not

Rome lay the rest of the world under tribute to obtain command over the products of the labour of other countries? To get without giving? Is not that a prime cause of war and of poverty too? The ownership of natural resources providing for the fortunate owner a market which to him is all imports and no exports?

Is the Surplus Destroyed?

This brings us to the second suggestion that the surplus alleged to exist throughout the whole field of industry is disposed of by deliberate destruction such as has been going on of late. But it is strange that only a few cases are ever quoted in support of this allegation such as coffee in Brazil and wheat in Canada. But there is nothing whatever to prove that such absurdities come from any inherent and chronic defect in "the financial and costing system" such as Social Crediters profess to explain by their A plus B theorem. On the contrary, the surplus and its destruction has been the direct result of State action both in Canada and Brazil. Producers have been offered a higher price than consumers are prepared to pay with the obvious result that a surplus is produced that cannot be sold. It is well known that it has been the deliberate policy of those countries to raise prices artificially. It is deceiving ourselves to attribute these cases of unsaleable surplus and destruction to a defective monetary system and we have yet to learn of any others which cannot be traced to the action of Governments in applying the policy of scarcity and dearness now so generally approved of.

Where then are the surplus unsaleable goods? Since they are disposed of neither by exportation nor destruction they must accumulate somewhere. But in what store or warehouse or dump? True enough our shops and warehouses now carry certain stocks, but you won't find the Social Credit surplus there. It is only necessary to ask how long these existing stocks would hold out *were all*

production to cease. Can it be doubted that in a very short time we would find ourselves faced with acute shortage or even famine, and with few exceptions shops and warehouses would stand empty ? The reason is that shops and warehouses carry on their business, so to speak, from hand to mouth, relying on manufacturers replenishing from day to day or week to week their relatively very limited stocks. Goods are steadily flowing in and flowing out, so that if the inflow on which they depend ceases, their shelves are soon bare. Normally they depend on this constant inflow and keep no stock they do not count on being able to dispose of quickly in the ordinary course of business.

We emphasize this point because if the basic theory of Social Credit is right the production of unsaleable goods is not merely a trifling affair which is difficult to prove or disprove, but a huge and growing accumulation in every industry, equal, according to the A plus B theorem, to all that manufacturers expend yearly on materials, plant and establishment charges. Major Douglas himself, in *Social Credit*, assumes this unsaleable surplus might equal three-fifths of all the goods produced and has been accumulating for the last fifty years. Other Social Crediters contemplate an even greater discrepancy and regard it as normal. Again we ask where are to be found these huge accumulations amounting to at least three-fifths of the nation's production made year after year ? The situation conjured up is so fantastic that all we can say is—" it simply doesn't exist."

Saving and Investment

Having attempted to explain in these two ways the alleged steady pouring out of masses of goods that cannot be sold, Social Crediters offer us yet further reasons and attribute shortage of purchasing power thirdly to investment of savings in capital undertakings, and fourthly to the action of banks in " creating and withdrawing credit."

So we are presented with four different and unrelated explanations for the same phenomenon which, to say the least, does not imply very clear thinking.

First, let us deal with the money shortage now said to be due to saving and investment in new machines. It is stated by Major Douglas that even if it were true that enough money exists in the world on any particular day to buy the goods produced at their cost of production, one week afterwards it could not be true if saving for investment in machinery goes on, for at once there would arise disparity between the increased number of goods turned out by the machines and the money available for purchase, which would remain the same as before (*Social Credit*, by Major Douglas, p. 84).

The Marquis of Tavistock, a well-known advocate of Social Credit explains in a different way the alleged money shortage due to saving and investment in new plant. In his *Poverty and Over-taxation*, page 22, he states that if the profit from an industry A is used to buy plant for a new industry B instead of being used to buy the goods produced by industry A, there must perforce be withdrawal of purchasing power for industry A goods. But surely the very fact that industry A has yielded profit is evidence that its goods actually have been purchased, for had they not been purchased there could have been no profit either to spend on the goods of that industry or to buy plant for the new industry B. To say there is not enough purchasing power to buy goods already sold can accurately be described as a contradiction in terms.

But does the Marquis seriously mean to convey that in real life things like this happen? The baker does not—indeed cannot—buy his own bread, nor the shoemaker his own shoes, nor the medicine man his own pills. How can any of them buy what is already their own property? They can eat, wear or swallow these things, but try as they may they cannot *buy* them. The whole conception is a strange confusion.

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Such perplexities and anomalies arise from Social Crediters' persistent habit of approaching every problem as a money problem instead of dealing with the goods and services which lie behind the money and of which money is but the measure. When savings are made and invested in—*i.e.*, devoted to making—new machines, a greater number of goods are produced and, as already shown, these additional goods are in themselves new purchasing power for other things, since in the last resort goods exchange for goods and not for money. Therefore, purchasing power keeps pace with production and no disparity can arise because of the new goods produced by the machines. It is only when the matter is looked at through money spectacles that it appears otherwise. Moreover, when savings are invested in a new factory, what actually happens is that these savings are used to buy all the articles required to build the factory and equip it with machinery, so that "investment" simply transfers so much money from buyers of building materials, machines, etc., to sellers of these things and corresponding purchasing power in the form of money is placed in the hands of the latter. In short, such an investment is a purchase of goods and no more creates a money shortage than does any other purchase.

Depreciation of Plant

But here again new ground is taken up by Social Crediters and we are informed that the allowance that must be made for depreciation of plant causes a gap between prices of goods and the money available to purchase them and therefore a shortage. It is stated that the amount entered in the books for depreciation is one of the costs of production that appears in prices while no corresponding addition is made to the money tickets which form the purchasing power. Hence arises a shortage of tickets and inability to buy all that is produced. Thus, it is explained, a firm with plant worth £1,000 allows £100

annually for depreciation and this £100 appears in the selling price of the goods produced during the year without any addition to purchasing power being furnished.

The answer to this manner of stating the case is to cut below the verbiage and make a simple statement of fact. A machine undergoes wear and tear and the factory owner foresees a time when it must be replaced. The only source from which he can get the wherewithal to buy another machine is from the sale of his goods, so he sets aside some part of his receipts to build up a fund for purchase of the new machine. He places that amount of his own purchasing power in reserve by putting it in his bank or making some investment which he can realize when the money is required. But let us not suppose that the money thus dealt with is sterilized. The bank in which it is placed or the concern in which it is invested is making use of the money and providing purchasing power every bit as surely as if the factory owner had spent it himself. No purchasing power whatever is lost or goes astray. This is confirmed if we look at the matter from another angle. The factory owner places to reserve, to meet depreciation, a sum of £100 each year for 10 years and then spends the accumulated £1,000 in buying the new machine. Quite clearly every penny of what has been saved is also spent. How can any shortage of purchasing power have arisen from the depreciation allowance?

Granting Bank Loans

We now come to the fourth unrelated reason given by Social Crediters for alleged shortage of purchasing power, viz., the issue and withdrawal of bank loans, through which, they roundly declare, credits are " created by the banks out of nothing by a mere stroke of the pen " Bank credits or loans are held to be nothing at all but book entries, by granting which at no cost to the banks, the chronic shortage of money for purchase of goods is for a

time made good, but only to reappear in aggravated form so soon as the loans are repaid to the banks, for then the purchasing power represented by the loans is cancelled, and the new goods produced by their aid rendered unsaleable. Is it true that bank loans are "created by the banks out of nothing by a mere stroke of the pen"? If this were so, why do not the banks create more of them, since they are always keen on lending to the right people? And what is the explanation of bank failures if in a crisis all they need do is to create credits out of nothing? And if it were true that banks create loans out of nothing at no cost to themselves, does it not follow that each time a loan is repaid not only the interest on the loan but also the loan itself is clear profit to the bank?—an incredible supposition. And if it were true, why cannot a small bank lend as much as a large one? And if it were possible for banks to create loans or credit in this way, would it not be absurd for them to try to attract depositors by offering to pay interest?

However, we need only turn to the works of Major Douglas himself to find the refutation of his own assertion that banks create credit out of nothing. In *The New and Old Economics* (p. 15), explaining just how loans are made, he says:

> The method by which most modern financing is done . . . is that some financial institution actually creates the money, *taking debentures on the new factory as security*.

Thus Douglas himself shows that bank loans are solidly based on and strictly limited by the amount of security (buildings, land, etc.) borrowers can offer, with which statement we think most economists will agree, though adding that loans are further limited by the cash resources of the banks including the funds entrusted to them by their depositors.

At this point Social Crediters seek to justify their position by quoting the banking convention whereby each loan is balanced in the books of the bank by entry

on the other side of an equivalent deposit, so that there is nothing to prevent them from issuing credit to any conceivable amount unless they themselves for safety's sake choose to impose a limit.

Here again Social Crediters answer themselves, Major Douglas, in his *Monopoly of Credit* (p. 52) writing:

> The legal liability of the Joint Stock Banks being to *deliver 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.

So it is apparent, again according to Douglas himself, that there is a limit beyond which banks cannot or dare not go in extending credit, and that limit is imposed by their cash reserves. Manifestly if one bank has £1,000,000 in cash reserves while another has £5,000,000, the former could not give more than one-fifth of the credits that the second bank could give. If loans were "created out of nothing" either bank could create them to the same unlimited amount, which is obviously not the case.

The reader may wonder why all this anxiety to convince us that banks create credit out of nothing, seeing that the matter has no bearing on the Social Credit contention that the present financial system is inherently incapable of providing sufficient purchasing power to buy what is produced. The reason for this anxiety will appear when we come to deal with the finances of the proposed National Dividend. We shall then discover that the necessary credit or money is to be found by the Nation in the same way as the banks are said to find theirs, namely, by creating it out of nothing, without taxation and without loans. It is therefore necessary for them to establish that this is what banks actually do. If banks can do it for their private profit, why cannot the Nation do the same to pay the National Dividend? So runs the argument.

Withdrawing Bank Loans

We conceive the charge against the banks to be not so much that they grant loans as that after having granted loans they then create shortage of purchasing power by withdrawing them. Social Crediters affirm that while the issue of bank credit serves the purpose of bridging over, for a time, the shortage of money due to our " financial and costing system," the repayment of these loans or credits re-creates the money shortage in aggravated form.

The granting of bank loans, they say, results in increased production, and for the time being creates corresponding purchasing power. When, however, the loans are repaid, the goods that have been produced by their aid remain in being, though, they contend, power to purchase them has been withdrawn along with the loans. But since the power to purchase the goods lies with the *customers* of the manufacturer, how can that power possibly be affected by the question whether the manufacturer has repaid bank loans or not ? In these and all such illustrations we ought to be told *whose* purchasing power is referred to. The manufacturer sells his goods to the general public at a price which is in no way altered, increased or diminished by his being a borrower or a lender, just as the price of his goods remains the same whether he is the owner or tenant of his premises. Therefore repayment of a loan by one party to another does not in any way affect the purchasing power of consumers in general. In any case new loans are issued to replace old ones as they are cancelled, for *if this were not so the volume of bank loans would steadily decline and ultimately vanish altogether*, which reference to the bank returns will show is not the case.

But, surely, in these matters banks do not act from mere caprice. They do not withdraw credits without cause. Living as they largely do on the interest on these loans, they would much rather not cancel them if the security is good ; so if some loans are withdrawn it must be because

the client is no longer deemed reliable, or for some other sufficient reason. Besides, it is in most cases the borrower himself who voluntarily repays the loan and thus completes the purchase of the plant and other capital for the conduct of his business, which should be a very good thing from the Social Crediter's point of view, since the business is then no longer bonded to the bank.

The repayment of a loan diminishes the purchasing power of the party who repays the loan and correspondingly increases the purchasing power of the party who receives the repayment and who is then in the position to make fresh loans.

However, the final disproof of the Douglas claim that cancellation of bank loans destroys purchasing power is that bank loans being normally made to manufacturers to help them in production of goods they could not otherwise produce, can only be repaid if and when those goods have been purchased by someone. If the goods are not purchased it is impossible to repay the loans, so the fact that the loans are repaid is proof positive that the goods *have been sold.* Loans can only be repaid *after* the goods produced by their aid have been purchased by someone. What then becomes of the contention that repayment destroys purchasing power ?

Do Bank Loans Raise the Price Level?

Yet another way in which Major Douglas seeks to account for the supposed inability to buy what is produced is that bank loans are responsible for unnecessarily high prices being charged to consumers. He advances the notion that the interest manufacturers pay for bank credit, being an item in cost of production, has the disastrous effect of inflating prices, and correspondingly reducing purchasing power. (*Monopoly of Credit*, pp. 16 and 17.) He sometimes goes further than this and even gives us to understand that not only the interest but also the capital sum of the loan is added to prices (*Warning Democracy*, p. 105). How can either of these claims

possibly be justified, seeing that the manufacturer working on a bank loan is in open competition with others working without bank loans? Surely the market price for any given article is the same, whoever produces it. Is it seriously suggested that a farmer indebted to his bank can get more for his potatoes or his wheat than another who is not? The fact is that whether he works with his own capital, borrows from a friend or borrows from his bank makes not the slightest difference to the price he can command. The effect is expressed, not in the price of what he sells, but in his net profit, the farmer who has to pay interest having perforce to share the gross profit with the lender.

So the conclusion must be that whatever the sins of the banks, they are in this respect guiltless, and we may very well now take leave of them, for they and their failings have really no bearing on the fundamental postulate of Major Douglas: namely, that there exists an inherent and ineradicable defect in the present costing and financial system, rendering it inevitable that a large portion of what is produced cannot be sold. The impartial observer, indeed, would almost be tempted to think that the banks and their sins have been introduced only to give alternative support to the very vulnerable A plus B theorem in case it should altogether collapse under criticism. Since this theory professes fully to explain the phenomenon of unsaleable goods and poverty amid plenty, it and the constructive proposals based on it must be examined on their merits apart from anything the bank may do or not do, and apart from any questions of saving, investment or depreciation. To mix up the main issue with these secondary matters is to envelop the whole question in a cloud of obscurity, ambiguity and confusion, in which clear thinking is very difficult.

Everything Produced has an Owner

It is a cardinal error to think, as Social Crediters suggest, that goods are lying about anywhere ownerless and

" undistributed," and that some smart financial device is called for to get them absorbed. The simple fact is that all things produced *are owned by someone* and are already " distributed " among the people in the only way they can be distributed, that is, according as men get wages, interest or rent. There *must* be sufficient money tickets in the community to enable people to secure possession of all that is produced, for as a matter of fact, everything produced does find an owner. There are no goods floating about seeking owners, and the theory that there is a steady output of goods that cannot be sold simply does not square with the fact.

What is Purchasing Power ?

Social Crediters look on purchasing power as consisting only in money, cheques or other pieces of paper. They ignore the fact that goods can be exchanged for goods and are purchasing power just as much as money, though in a less convenient form. The man who produces commodities desired by others in that act produces purchasing power for the commodities produced by others and desired by him, so they must necessarily equate. To increase production is to increase purchasing power, to restrict production is to restrict purchasing power. Purchasing power lies in the goods themselves and not in money, which is but a certificate that someone has produced goods and is therefore entitled to others in exchange. Major Douglas, as already quoted, states emphatically that " purchasing power is simply a question of tickets," ignoring completely that tickets do not come down from the blue but are only acquired by individuals in exchange for goods and services. Without the goods and services for which the tickets stand, the tickets would be valueless, and providing tickets, whether on the Douglas plan or any other, will not bring goods into existence.

"Tickets" Again

Major Douglas holds all that is necessary is to print more tickets and issue them according to a plan that will later be examined. All that is produced will then be consumed *and the social problem solved*. But what warrant is there for any such belief? It is based on the assumption that (1) there exists an undistributed surplus and (2) that there is no inequality in the distribution of wealth that requires to be redressed. We have shown there is no undistributed surplus and that everything produced is, in any event, owned. If there is poverty amid plenty it arises, therefore, from a fundamental maldistribution not connected with money.

There are conditions which arise from causes more deep-seated than anything to do with tickets. We have but to imagine a community suffering from serfdom or from drought. More money tickets issued on whatever plan you like would neither free the serfs nor bring the rain. In like manner, if we take a civilization such as ours, afflicted by poverty amid wealth, we might so arrange that everything which is produced shall be consumed—we assert that even now all goods produced *are* consumed—and distribution would not be one whit less unequal than it now is. Major Douglas would not seem to have given any thought to such considerations, and his plans—limited as they are to issue new tickets to provide what he calls a National Dividend alike for rich and poor, exploiter and exploited—pass them by.

Major Douglas does not seem to realize that he is dealing with conditions in which wealth is too often gained at the expense of others. Accepting great disparity of fortune as a matter of course, and making no enquiry as to its source, he attributes inability to buy, not to any maldistribution of the good things of life brought about by unjust institutions, but to mere shortage of money tickets, so that for him the problem goes no deeper than adjustment of those tickets to the requirements of the

market. Why some get without working, while others work without getting, is a question to which no consideration is given in Social Credit literature. The real problem to be solved is not a ticket problem but how to bring about the fair distribution of wealth which will put it into the hands of those who produce it.

The "Just Price"

Neglecting, however, its faulty basis let us consider what would be the actual effect of the constructive policy of the movement if it were put into operation. Reduced to its elements, the contention of Social Crediters is that prices of goods are too high owing to a false system of costing and finance, so that with what purchasing power they now possess consumers cannot buy what is produced. They must, therefore, be assisted to do so by financial means. For this purpose two proposals are made—one being the achievement of a "Just Price," which has no relation to what the goods have cost to produce, and the other being a general issue of new money tokens to be paid in equal amount to everyone, so that all goods produced will be bought and consumed. The Just Price is obtained by giving everybody a discount or bonus on every purchase. The bonus is added to every person's banking account and paid back to the bank by the Treasury. The distribution of money tokens directly to the people (a plan additional to the Just Price) is given the name of the "National Dividend."

In Social Credit literature it is difficult to find any really clear exposition of these plans, and such statements as are made do not always harmonize—but here is what Mr H. M. Murray (whose statements have earned the special commendation of Major Douglas for their soundness and simplicity) has to say :

> The nature of the change is to make the nation's money balance the money value of its capital assets and goods in the making and for sale. This involves issuing credits

> to consumers independent of costs, also price regulation and selling under cost. It is an indispensable part of the reform that money equal in amount to the value of all new capital—or capital values created—should be distributed free and equally in the form of a social dividend to everybody as a right and independently of what he may earn or what work he may do.—*Outline of Social Credit.*

Mr Murray, it will be seen, says that the nation's money must be made to balance the value of its capital assets and goods in the making and for sale. Major Douglas, in his detailed scheme for Scotland (Appendix to *Social Credit*), adds to this not only the land (which is not capital at all) but also what he describes as the "commercial capitalized value of the population," estimated by him at something like £10,000 for each citizen at the age of twenty-five. He proposes that some such proportion as one per cent. of the capital sum thus ascertained shall be taken as the basis. Which of these very diverse proposals are we to accept as orthodox ? The question is important, for though, as we shall prove, both of them would involve inflation and higher prices, they would do so in different degree. But whichever we take, the immediate result would be fantastic, for as soon as the plan came into operation all capital and everything else would have to be revalued in terms of the watered currency and Social Crediters would be forced to begin all over again.

Should Total Money Equate with Total Value of Goods?

According to Social Credit teaching it is of capital importance that money be expanded till it equates with the value of all capital assets and goods for sale. It is claimed to be a prime condition of prosperity that for every pound's worth of goods produced £1 of money should be put into circulation and that only the selfish policy of the banks prevents this being done. The policy at first sight seems eminently reasonable. But will it bear examination ? Assume for argument's sake that, after all the

parade of a national valuation, it is found that over a given period, production normally exceeds consumption by ten million pounds and that, after solemnly declaring it to be backed by the surplus goods, ten million pounds of new money is issued. Could the effect be other than a corresponding rise in the price level? And, with higher prices, would we be any nearer to finding purchasers for the surplus goods? And would we not then be met by the cry that a further dose of new money must be administered to enable the higher priced goods to be absorbed, and so on without end? It would appear that this policy is self-defeating and brings us no nearer our goal—increase of purchasing power.

Our aim should be, not equality of money with value of goods on sale, but as Mr Reginald McKenna has stated:

> A sufficient supply of money to finance an ordinarily growing volume of trade, yet not so large as to give rise to an inflationary movement of prices.

There are, he affirms, well-known means by which this level can be tested.

As for the Just Price, how is it to be determined? A census of the total production and total consumption of the nation (some, as we have said, would include in production the land value of the country and "the value of the population itself") is to be taken, and the Just Price is to bear the same relation to the present cost price as total consumption bears to total production. Since, by their A plus B theorem, consumption must always be less than production "under the present price and costing system," the Just Price will always be less than the cost price. To quote *The Nation's Credit: A Précis of Major Douglas's Proposals* by C.G.M.:

> Imagine that the ratio between these two is found to be as 5 is to 2, then the Just Price of consumers' goods would be two-fifths of their financial cost, calculated on the average price level of say, the preceding year. That is, consumers could buy goods from retailers at two-fifths

the usual price and retailers would be reimbursed the remaining three-fifths by the State, the money for the purpose being created against the real credit of the nation.

Advocates of Social Credit are not always consistent as to application of the principle and their tentative figures vary widely. According to this statement the bonus would be given to retailers, whereas in Major Douglas's book *Warning Democracy*, and in his Scottish scheme, the bonus would be given to consumers. Again, in the above statement it is suggested that the Just Price might be two-fifths (40 per cent.) of the present selling price, and the remaining three-fifths would be made good by the Treasury as a discount or bonus. But in the Scottish Scheme (which is put forward as a practical application of the plan) the discount or bonus to be paid by the Treasury is taken at only 25 per cent. for initial purposes, which means that the Just Price would be 75 per cent. of the present selling price. But it is not material what the actual amount of the bonus may be. It is the principle at stake. Even if this bonus were only 5 per cent. of existing prices the inevitable effect of giving everyone this increased purchasing power without increase of production would be inflation on a progressive scale. In fact the Just Price and the so-called National Dividend would act in the same direction (the very opposite to what Social Crediters intend), raising prices catastrophically against the consumer, killing demand, and finally bringing all production to a stop.

We cannot find that Social Crediters have ever made an estimate of the amount of new money the Treasury would have to issue to carry through this plan, so we shall try to make good the omission, taking the Just Price discount or bonus at 25 per cent. of the sale price so as to be on the safe side, and allowing this discount on all retail sales.

It is roughly estimated by Sir Josiah Stamp and Mr. Geoffrey Crowther that the national income now is £4,000 millions and, according to Mr. Crowther, this sum

represents the goods and services available for the citizens in one year. Leaving aside the services, the goods bought for consumption—that is the retail sales—might be fairly estimated at something like £3,000 millions. Twenty-five per cent. of this is £750 millions which roughly is the amount of new money the State printing press would have to turn out in order to pay the Just Price discount, or about equivalent to the whole revenue of the Treasury at the present time! Who can doubt the effect on prices of such an issue?

Putting the matter very concretely let us take as example a baby motor-car priced in the shop at £100 but whose Just Price is only £75. To bring it within reach of a would-be buyer who cannot pay more than the Just Price the dealer by means of a discount sells it to him at that price and the State, by issue of new money, refunds to the dealer the 25 per cent. discount or rebate he has allowed. In effect the buyer pays £75 and the State £25. The original £75 has thus expanded to £100 which sum is now in possession of the dealer. With this £100 the dealer is enabled to buy something priced in the shops at £133 because of the 25 per cent. discount he is entitled to. So the original £75 has now expanded to £133. This in its turn is spent by the receiver in buying goods priced in the shops at £177. So the original £75 now expands to £177 which in its turn is spent on goods priced in the shops at £236. Following up this process and assuming that money turns over six times in the year, we find that at the end of the first year, the original £75 has blown out to £369—an inflation of 400 per cent. in a single year—and thereafter goes on increasing till money loses all value. Thus the effects of the Just Price would be the very opposite to what Social Crediters claim. Instead of lowering prices it would tremendously raise them.

Probing things yet further we find that those who want to "make money quick" without work would have an alternative plan open to them under the Just Price

device. For there is nothing to prevent an original buyer, who only paid £75 out of his own pocket for a £100 car, selling it to someone else for £100, this second buyer receiving in his turn another £25 from the State, and so on right down the line, a net profit of £25 being netted on each deal *at the State's expense.* Such practical considerations go far to make nonsense of the so-called Just Price. What would Douglasites say if buyer and seller agreed to keep on selling the car backwards and forwards one to the other and at each deal receiving the 25 per cent. discount ?

The National Dividend

Returning to the "National Dividend," it will be found to have the same inflationary and price-raising effect. According to Douglas, new money "which might be expected to exceed" £300 per family* will be issued every year, which, with some 9 million families in the country will mean an annual issue of new money amounting to £2,700,000,000. However fervently the Social Crediters may hope and declare that inflation will be avoided because, under stimulus of the new money, production will greatly increase, there is and can be no assurance that such will be the case. In point of fact, all experience—and there has been plenty of it—negatives any such hope and goes to show that the issue of this vast sum "to pay the National Dividend" will be greatly to stimulate the inflation already caused by the establishment of the Just Price, if indeed any such Just Price could possibly be established.

Confronted by this, Social Crediters seek further to disclaim inflationary effect by asserting that there will be two checks imposed on any such tendency ; firstly, the issue of new money to pay the dividend will not be allowed to exceed the value of the goods supposed to exist beyond consumers' powers to purchase; and secondly, that since the so-called Just Price will be firmly pegged

*Draft Scheme for Scotland. See *Social Credit* by Major Douglas.

below cost price, any rise in price level will be out of the question. In what has preceded it has been conclusively proved, firstly, that the unsaleable surplus is a figment of the imagination; and secondly, that the Just Price itself, so far from acting as a check on inflation, would powerfully promote it.

Here a word is called for as to who exactly is to receive the new money as Social Dividend, and who exactly is to benefit from the reduced Just Price. Douglas, we believe, makes no claim that either will do anything to level out present monstrous inequalities of fortune such as are disclosed in the Report of the Commissioners of Inland Revenue for the year ended April 5th, 1934.*

Idle and Industrious Alike are to Share the National Dividend

Still less can he remove the *causes* of those inequalities, for the new money is to be paid in equal amount to rich and poor, exploiter and exploited, worker and idler. But Major Douglas *does* claim that his plan provides a way whereby all may become richer without working. In his own words "no interference with existing ownership is involved in the proceeding," and again, that his plan "would not detract in the slightest degree from the available wealth of anyone, while adding to the available wealth of all." (*Warning Democracy*, p. 134). So even the legalized parasite who levies tribute on industry for access to the bounties of nature is to retain his privilege intact and is to come in for his equal share of the new money

*According to this Report the number of persons who have a yearly income above £125 a year is 7,900,000 and of these 84,175 have an average of £4,920 each, whereas of the total population over 20 years of age there are 13,000,000 who are not assessed for income tax because for all their work they get less than £125 a year. Or take the estate duty assessments and compare them with the number of deaths occurring in a year. There were 134,195 persons who left estates of total value £524,000,000 and of these 1,196 left £196,600,000, whereas 420,000 people died leaving nothing that was worth the trouble of assessment. In the light of these facts it is absurd to make the purchasing power of "the community" the basis of argument.

printed to pay the Social Dividend. And Mr C. P. Loftus, M.P., speaking for the movement claims to solve the social problem "without asking anyone to give up an atom of his wealth," and "while retaining all existing inequalities of fortune." Both rich and poor will thus buy at the Just Price, so that if the discount is 25 per cent. the rich man whose purchases are £1,000 in a year gets in this "discount" a gift of £250, whereas the poor man, who can only spend £100 in a year and needs help much more, has to be satisfied with £25. The richer the man the greater the bonus, so that the result would be to aggravate greatly present contrasts between rich and poor, the very opposite to the end that should be aimed at.

As if this did not sufficiently load the dice, we are told by Major Douglas in his Draft Scheme for Scotland that when issue of new money to pay the National Dividend exceeds a given figure, wages are to be docked by 25 per cent. all round, though it is not proposed to touch the gains of more fortunate members of society who are not dependent on wages. Moreover, it is part of the plan (*vide* the same Scheme) that workers are to lose what freedom they still enjoy by being forced to accept whatever kind of work is offered them.

Unearned Increment of Association and the Cultural Heritage

Having now explored some effects of the Just Price and the Social Dividend, it must not be inferred that we fail to recognize the merit of the underlying conception, which is that much the greater part of the wealth produced to-day is due to men working in association instead of separately, and profiting in their associated labours by the accumulated knowledge they inherit from the past. The immense increase in wealth resulting from co-operative labour and inherited knowledge Major Douglas calls the "Unearned Increment of Association," the "Cultural Heritage," and he claims it as common property. "The

general community as a whole," he claims, "are the proper legatees."

We welcome this as a great truth too seldom recognized. This underlying conception of Major Douglas's philosophy—that there exists a store of wealth rightly due to the whole community—is sound and welcome. But he does not know where to find this communal wealth. Consequently his constructive plans are open to the gravest objections and any attempt to realize them in practice could only leave matters worse than they were found. Our quarrel with him is not that he makes this claim, but that he links it up with finance, and believes that this communally created wealth can be secured for the whole community by mere issue of new money tickets and without taking a penny from those individuals who now monopolize it. He believes that issue of new money and doling it out *pro rata* to all (even to those who under existing social arrangements get more than their services entitle them to) will secure to the community its common birthright—its " social heritage."

Service for Service the True Aim

Few will question that the reformer's ultimate aim should be to attain a condition in which service can be got from others only on condition that service of equal value be rendered in return. Society should be so constituted as to make it impossible for any man to command more services from his fellow than he returns to him. In an equitable society service for service would be the watchword. The root trouble with society as we know it is that there exist legalized means of getting service without giving it and hence the poverty amid wealth that shocks and afflicts us. The reformer's duty is to reveal what are the institutions that confer this power and to get rid of them wherever found.

This brings us to an examination of how the true Cultural Heritage has been perverted and the true steps that must

be taken if it is to come to the people as a true Social Dividend.

The Distribution of Wealth and the Law of Wages

If we analyse the product of any industry, it will be found to divide itself into three parts or shares—wages, interest, and rent. There is no fourth part. Wage is the share of the product that goes to pay labour ; interest is the share that goes to pay for the use of capital, and rent is the share that goes to pay for the use of land. It follows (other things being equal) that the more rent takes, the less is left for wages and interest. In other words (since all wealth is the product of labour applied to land) the most that labour unassisted by capital can get is what it produces on land after deduction of rent or on land for which no rent is payable, and that, of course, is the poorest land in use. All lands or sites of better quality or in better situations are subject to payments of rents varying according to the advantages they possess over the poorest land in use and mounting up to fabulous sums in great industrial centres. *This land rent, we claim, is the true National Dividend : the true Increment of Association* for which Major Douglas is seeking. Thus, take three fields, yielding with the same expenditure of labour 20, 40 and 80 bushels respectively, and say that the field yielding 20 bushels provides no more than a bare living and is, therefore, rent free. Then the rent of the 40-bushel field will be 20 bushels, and the rent of the 80-bushel field will be 60 bushels. The sum of the rents is 80 bushels *and this should be treated as National Dividend.* In every case rent absorbs the difference in productivity, so that when it is privately appropriated only 20 bushels, or a bare living is left for the labour and capital employed even on the better fields. The same is true of city, mineral-bearing and all other lands, *i.e.*, the wage level throughout all industry is determined by what common labour produces on such land as is available to it rent free. This is

readily seen in new countries before land is fully monopolized, and where rich, well-situated land is still open to labour free of rent. In such countries, wages *in all industries* form a high proportion of what is produced, and rent a low proportion.

This, stated shortly, is the law of wages and explains why, *where the rent of land is appropriated by private individuals,* the wages of labour must always tend to a bare minimum. It explains why poverty persists and the real reason why the purchasing power of the majority is low.

Why Increased Powers of Production do not Raise Wages

Taking a further step, it also explains why the population as a whole fails to benefit from the enormously increased powers of production due to modern invention, associated labour and the knowledge we inherit from past generations. Social Crediters are right in claiming that these things are not the exclusive creation of the men of to-day and that, without them, the labour of those now living would have no more value than that of the Stone Age man. They are right in claiming that all should therefore benefit from them. They are right in claiming that the vastly increased powers of production due to the "Cultural Heritage" or "Unearned Increment of Association," as they name it, should, if shared by all, make poverty in the midst of plenty inconceivable. Where the trouble comes is that they have inadequately explored the situation, so that, in seeking to secure the "Cultural Heritage" for all, they have allowed themselves to become bogged in the morasses of mere monetary policy. They may justly be charged with ignoring the great simplicities that underlie our seemingly complex economic life—that, in the last analysis, all wealth is produced by labour exerted on land so that denial of access to land or obstacles put in the way of access to it, deprives men of the opportunity of producing wealth, and is the prime

source of poverty with lack of purchasing power. Faulty policies follow on neglect or ignorance of first principles.

Cultural Heritage and Advance of Rent

Inventions and advance of knowledge have another all-important effect which Social Crediters pass over without notice. *It is that they increase the value or rent of land, but do not and cannot increase the earnings of labour so long as we refuse to treat rent as the National Dividend.*

Thus inventions, associated labour, and the knowledge handed down to us from past times enable us to sink deep shafts into the bowels of the earth, so that minerals that were before inaccessible, are now devoted to our use, and in consequence *mineral-bearing land throughout the country has risen in value.*

For the same reason we are now enabled to build structures into the sky, so that multitudes carry on their business in closer and more effective association on small areas of land *and the sites on which great cities stand have acquired fabulous value in consequence.* The surplus produced by associated effort expresses itself in rent, and thus those who appropriate rent, the true National Dividend, are enormously enriched without work. But turn to the men who sink these shafts and build these structures. They still labour for a bare living. The reason is that through this same private appropriation of economic rent they are deprived of their share in the cultural heritage and the advantages of co-operative labour, to which Social Crediters rightly attach so great importance. And thus does their purchasing power disappear.

Henry George clearly showed what to-day becomes of the "Cultural Heritage." Take a little village which has grown to a great city where are available all the advantages of good education, efficient public services and modern inventions of every kind which enormously multiply productive power. Ask any hard-headed business

man : " Will interest on capital be any higher ?" " No," he will tell you. Ask him again : " Will the wages of common labour be any higher ? Will it be easier for the man who has nothing but his labour to make an independent living ?" He will tell you " No, it will probably be harder." " What then will be higher ?" " Rent," will be the reply, " the value of land will have soared to the skies." (*Progress and Poverty*, by Henry George, Book V., chap. ii.)

And it was Professor Thorold Rogers, the author of *Six Centuries of Work and Wages*, who said :

> Every permanent improvement of the soil, every railway and road, every bettering of the general condition of society, every facility given for production, every stimulus applied to consumption, raises rent. The landowner sleeps, but thrives. He alone, among all the recipients in the distribution of products, owes everything to the labour of others, contributes nothing of his own. (—*Political Economy*, chap. xii.)

Or witness J. S. Mill :

> Suppose there is a kind of income which consistently tends to increase, without any exertion or sacrifice on the part of the owners. . . . In such a case it would be no violation of the principles on which private property is grounded, if the State should appropriate this increase of wealth. . . . Now this is actually the case with rent.—(*Principles of Political Economy*, Book V., chap. ii.)

What moral can be drawn but that it is the first duty of Government to collect for the people the rent of land, its natural revenue, its Social Dividend ?

The True Social Credit and the True National Dividend

This value which attaches to land because of the presence and work of the whole population and which arises apart from the labour of any individual is the true Social Credit and the true National Dividend. Its ascertainment is simple and renders superfluous all the

doubtful generalisations and complicated formulæ to which Social Crediters are driven.

Monopoly of land rent by private individuals is the greatest of all the mistakes made by civilized society. It dooms the greater part of the population to poverty despite all progress. Poverty means lack of the purchasing power Major Douglas so much desires for us all, and thinks he can give us by issue of new money tickets indiscriminately handed round to everyone. He would allow the rent of land, the *true National Dividend*, to remain appropriated by a minority—and then try to save the situation by reducing prices below cost and distributing new money to all and sundry.

But here a new difficulty arises and one that Douglas has never faced, because assuming for argument's sake that purchasing power can be increased by distributing new money tickets, and assuming for the moment that this would be an advantage to society: the inevitable effect would be *further rise in the price of land* and so long as rent flows into private pockets the filching of the benefit from the mass of the people, through increased toll thus levied on them. The only answer ever given by Social Crediters to those who raise this pertinent question is to refer them to a passage in *Social Credit* (Appendix: Draft scheme for Scotland) where Major Douglas says: "No transfer of real estate directly between either persons or business undertakings will be recognized. 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." But even if owners of land are forbidden to sell it, there is nothing in this to prevent them from renting and enjoying every increase in value that takes place.

Purchasing Power and Economic Freedom

Major Douglas is emphatic that lack of purchasing power has nothing to do with maldistribution of wealth;

he traces it solely to the alleged inability of our financial system to hand out sufficient money tickets to buy what is produced.

In the Social Credit literature we have read there is only one sentence that touches the real heart of the problem. In *Social Credit* (p. 25), Major Douglas writes:

> It is patent that in spite of the 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.

This is, in other words, the question Henry George asked as he undertook the great examination in *Progress and Poverty*: "Why, in spite of the increase in productive power, do wages tend to a minimum which will give but a bare living?" Neither Major Douglas nor any of his followers recognize that the question is why *a large proportion of the population* are so beset and why the remaining proportion of the population fare very differently. The argument is turned into the assertion that the country as a whole has not the purchasing power to possess the goods that the country as a whole produces, a proposition which is self-contradictory. We are prevented from discussing that which we ought to discuss: the causes of the unequal distribution of wealth.

Before money, or anything else, the first condition of a well-ordered community is freedom to produce, and the second is freedom to exchange. Therefore our first duty is to see that production and exchange suffer no obstructions. Purchasing power (as already shown) consists of goods and services—not money—so if we wish to increase purchasing power we must (much as it may surprise Social Crediters) increase production, and in this task no free issue of money tickets can help. The only title a man has to consume is that he has produced. To produce something or to perform some service in demand entitles a man to receive in return goods or services of equivalent value, which value is determined by bargain

in the open market. Thus consumption as a whole accompanies production as a whole as surely as inside accompanies outside, or top accompanies bottom. " Demand " is " supply " looked at from the other side. From all of which it follows that general poverty or lack of purchasing power cannot be due to lack of money tickets as Major Douglas thinks, but to stoppage or restriction of production. Douglas shows no signs whatever of seeing this or he would never have advanced mere money manipulation as the cure for the lack of purchasing power. *Our real trouble is obstructed production.*

So if we wish to find the cause of low purchasing power, we are driven to search for checks on production, and since production is nothing more nor less than labour applied to natural resources, we are bound to search for obstacles placed in the way of such application. We shall then find ourselves faced by the land monopoly which comes between the would-be producer and the source of all production, levying tribute on industry and obstructing it everywhere without rendering any service in return. Not one brick may be laid on the other, not a spade dug into the earth, not a bucket of coal raised, till this barrier is surmounted, and where the monopoly is complete the barrier is well-nigh insurmountable.

By law of nature, land, the source of all production, increases in value as population grows. Where rent is treated as the perquisite of a class instead of as a National Dividend, so-called owners of land in anticipation of this rise in value are encouraged to withhold it from productive use until the terms they demand are wrung from industry, which meanwhile stands still or slackens down. In and around every progressive community idle though most valuable land bears witness to this barrier against its productive use. Thus opportunities for production are closed, men are denied the chance of work and an unemployed class is brought into existence whose struggle for jobs reduces the level of wages all round

and brings about that want of purchasing power which Social Crediters attribute to lack of money tickets.

The second great check to production is the piling of taxation on industry to which we are now compelled through our failure to use the economic rent of land—the true National Dividend—as public revenue. Every penny of taxation in this vicious form is added to prices of goods, and therefore means correspondingly reduced consumption or purchasing power.

The third great obstacle is the deliberate policy of all States to strangle international trade.

Drawing Together the Threads

If production and purchasing power are to rise, the three essentials are that the value of land be used as a public revenue; that taxation of industry be abolished; and that commerce be freed from its fetters.

And if we are to get a just distribution of what is produced, we must look beyond financial adjustments and place men in their proper relationship to natural resources, from which all production comes.

If only because Social Credit policy meets none of these requirements it cannot be accepted as a cure for present ills. It cannot be accepted because as we claim to have demonstrated:

1. Increase of money does not imply increase of purchasing power.
2. The A plus B theorem on which the whole Social Credit case is based, is untenable.
3. It is not true that the community is unable to become possessed of (buy) what it produces, for in point of fact everything produced becomes the property of somebody.
4. It is not true that the problem of poverty is simply "a ticket question" and can be solved by an issue of more tickets whether on the Douglas plan or any other.

5. It is not true that bank loans are "created out of nothing by a stroke of the pen" and are a cause of high prices.

6. It is not true that repayment of bank loans destroys purchasing power.

7. It is not true that allowances for depreciation create shortage of purchasing power.

8. It is not true that saving and investment in new plant create shortage of purchasing power.

9. Both the Just Price and the National Dividend would fail in their purpose because they would result in inflation and higher cost of living.

We have dealt at length with Social Credit policy not because it is to be accepted as a serious contribution to the solution of economic troubles—it is melancholy to think that such fantastic arguments need refutation—but because it absorbs the energies of many earnest reformers to the exclusion of those fundamental ends for which we should all be working. Thousands who see the evils of the present social order and are genuinely concerned to find a way out have been led astray by plausible though fallacious generalisations. Our aim has been to direct their attention and activities to the real problems that face humanity.