Belloc’s Hellenic Economics

By Edward Minton, November 2016

Hilaire Belloc’s *Economics for Helen* republished by *IH*S Press, Norfolk, VA, USA in 2004 was first published in March, 1924. C H Douglas’s *Social Credit* had appeared only a month or so before it.

To a Social Crediter it has both archaic and forward looking qualities. It purports to be a basic “starter” on economics, and it is, and reflects the great difficulties and efforts of that period to adjust conceptual economic thinking to changes perhaps long existent, but only newly apparent.

Chapter VII titled *Money* begins from page 68 and by its end on page 78 has traversed the issue of what qualities make for the best form for money to take. The historic reasons for the triumph of gold are given. That gold is the currency, and that that is as it should be, is apparent from statements such as “It is morally wrong for the Government to swindle people out of their property by making false money” (page 77) and “…when we have learned the nature of money we can appreciate the dangers that come from using false money.” (page 79) These comments come after his observations of the proliferation of paper currency and “When the Government …is tempted to put in less gold and more alloy …that is called “Debasing the Currency.” (page 75)

At first he observes that “For the moment, the interesting thing to note about Efficiency in Circulation is that we owe to this factor in prices the creation of ‘Paper Money’.” And further that “Paper money was a method of immensely increasing Efficiency in Circulation.” (pages 73 & 74)

On page 76 we come to “*So long as the amount of paper printed was not more than* ***would have been printed*** *when the notes were redeemable, and when the currency was on a true “Gold Basis,” no harm was done; but of course it paid the Government to go on printing a great many more notes than that, …”*

The bald truth is that the notes were never redeemable at any time since the founding of the Bank of England in 1694, unless you didn’t want to redeem them. Although there had been ten times more banknotes printed promising to pay the bearer gold upon demand, than the Bank of England had gold to meet this commitment for at least the last two hundred years, the notes were in the public’s illusion “as good as gold”. At the outbreak of World War I people actually sought to redeem their gold, and all the gold had gone (or so very nearly) within just one day, so a Bank Holiday of two days was declared, during which time truckloads of flimsy hurriedly printed notes were produced and the public was met with the fact that these were all they were going to get!

In fact for the greater part of one hundred years the dearth of gold was greater than 10 is to 1. People had begun accepting loans which were deposited into their Bank accounts and transferable by writing to their Bank (using cheques) to authorise a transfer of these funds. Just as ten times more notes were created that there was gold, ten times more bank deposits now existed than there were notes. The ratio was now 100:1. If even 2% of depositors wanted gold they couldn't all get it.

The dilemma which such a first class mind as Belloc's experienced in coming to grips with this business, is indicative of the size of the problem of explaining it to a broader public.

The difficulty of commanding a fully disciplined grip of the subject in 1924 is evident in the statement on page 136 speaking of a loan to a bank client which "…was lent to him by the bank out of other people's balances." In the whole history of banking no such thing has ever happened. Discover someone who has ever had his balance reduced by his Bank to loan it elsewhere, and I will stand corrected.

Yet Hilaire knew otherwise. On the very next page (137) he says "But it occurred to the Banks after a certain time that there was no need to use anyone else's money at all. *They could themselves offer to honour the cheques of the man to whom they lent the money without having any real money with which to pay those cheques."* And in the following paragraph "If they said to a man who had *no* money deposited with them: 'We will honour your cheques up to 1,000 pounds,' *what they were really doing was increasing the paper currency to the extent of 1,000 pounds.* They were issuing promises to pay, exactly like bank-notes, knowing that of the total amount out only a small proportion at any moment would be required in real money."

Both the above quotes put stress upon the idea of "real money". Even of pages 149 & 150 he is still reckoning inflation in terms of gold. This is like a fragment of sticky egg shell clinging to an emergent hatchling in the illusory idea that proper money is a commodity. Douglas endorsed Professor Walker's definition of money as "any medium no matter of what it is made or why people want it, no one will refuse in exchange for his goods." 1 Money is socially defined. What makes money so is the credo, I believe. Even in 1924 less than 10% of money was physically visible, the rest was merely a recorded claim (now as much as 97%) which has long since fled from the Ledger into cyberspace.

Money is now and forevermore is likely to remain, *the enumerated abstract claims upon a community's goods and services, howsoever it may be recorded.*

Chapter XI entitled "Usury" tells us "The character of Usury *has nothing to do with the taking of high or low interest.* It is concerned with something quite different."

"*Usury is the taking of any interest whatever upon an UNPRODUCTIVE loan."*

This indeed is music to Social Crediters. In the "Heydorn model", so called because it is the one favoured in the tome *Social Credit Economics* by Oliver Heydorn, all money creations would begin with a National Credit Authority (or Organisation), and would be disbursed in only three specific ways. Consumer financing would all go directly to each person, requiring neither repayment nor interest, either as a National Dividend or in the form of discounted prices. All funding for production would be made available to commercial banks at no interest, for on-lending to productive entities. These funds would be repayable to the NCA.

The commercial banks would be forbidden from financing speculation or consumption, and would be confined to solely funding production. As such, any interest which they charged producers would not be usury under Belloc's definition.

For these reasons all money would begin its life and be put into circulation without usury. Subsequent secondary usury between persons, whilst never wholly stopped in any jurisdiction, might be expected to be limited.

By page 100 we have discovered Hilaire's first recognition of a deficiency of consumer purchasing power which he examples in the manufacture of boots. Since the wages paid to make boots are less than the full cost of their manufacture he observes "The capitalist controlling the boot-making machinery, when he has provided himself with a dozen pair of boots, and the working classes of the community with such boots as their wages permit them to buy, must either try to sell the extra boots abroad ….or stop making them."

This theme was taken up again in 1933 in his address of 26/5/1933 published in G. K's Weekly of 8/6/1933 "….Industrial Capitalism has broken down. It has broken down for a very simple arithmetical reason – it distributes less purchasing power than it creates. I am not going to speak of Major Douglas's scheme of Social Credit, because that is merely an indirect method of distributing property, which I prefer to achieve by direct means. Industrial Capitalism has broken down because it is producing an amount of wealth greater than it is distributing purchasing power for that wealth; and to put it crudely indeed, if I want to make a hundred thousand boots, or rather employ men to make those boots, by the time the boots are made I have distributed to the men who make them the money wherewith to purchase thirty thousand boots, and what am I to do with the seventy thousand boots left?"

This acknowledgement of the A + B Theorem, as it were, brings us to the one mention of Social Credit in *Economics for Helen* on page 139, "Thus, we have in England a very powerful movement in favour of what is called the "Douglas Scheme of Credit, …." Douglas first offered his thoughts into the public domain in 1920, so it is most interesting that Belloc was not only already conscious of Social Credit, but thought it a "very powerful movement". Once the banks had popularised J M Keynes's proposal to solve the deficiency of purchasing power by progressively increasing society's indebtedness to themselves, and World War II had been financed in this way, the urgency for Social Credit was delayed by at least a generation, and it is only now entering another period of growth.

Yet the difficulty with assimilating Social Credit is often evident in Hilaire's thinking. For example he says on page 51 "We have seen that capital cannot come into existence unless somebody saves." The truth is that capital is most often commanded into existence through the actions of banks in extending loans to investors, which action is completely independent of savings.

Similarly, as another example, he speaks in his Chapter IX *National Loans and Taxation*, of Governments borrowing as though they borrowed from their citizens. I have never asked an audience whether any of them owned any government bonds, without being answered with a unanimous negative. During war people sometimes buy war bonds out of patriotism and under pressure from propaganda. Apart from this exception, Government loans are almost wholly funded by the Banks who costlessly create the nation's credit and then insist upon our indebtedness to get it.

As yet another example of Hilaire's difficulty in coming to grips with Social Credit is his statement that the free trade versus protectionism debate is "…the most important economic discussion in modern England." More important presumably than the prevention of the coming Great Depression of which Douglas warned, and which only a perversion of Social Credit in the form of Keynesianism ended?

It is also remarkable that the man who could hypothesi on page 99 "Supposing one man were to own all the means of production, and supposing he were to have in his possession one machine which could produce in an indefinite amount all that human beings need in order to live" could not quite see that only income other than for employment could meet the situation. If under Distributism we were to distribute the ownership of the machine in equal parts to every person on earth they could not, if the product had a price, buy any of it.

This is the conundrum from which Hilaire Belloc, brilliant mind and wonderful person that he was, most curiously could not escape.

In none of Hilaire Belloc's writings did he nominate any plan, programme or means of achieving Distributism; a shortcoming for which he took some censure from his peers. This was unfair criticism actually, because he did in fact on one occasion nominate one thing as being a "method of distributing property". This was Social Credit as per the G. K's Weekly quote given above. It is true that he denigrated it as being "merely an indirect method", but nevertheless it is the only method which he ever nominated, and he had the good sense not to confuse us by offering any other.

1 *The Monopoly of Credit*, Bloomfield Books, Sudbury, 4th edition 1979, page 17