THE NEW

and

THE OLD ECONOMICS

By

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Published by
TIDAL PUBLICATIONS
SYDNEY

Printed by
BLOXHAM & CHAMBERS PTY. LTD.
SYDNEY

National Library of Australia card number and ISBN 0 85855 004 0

Publisher's Preface

The New and The Old Economics was first published in 1932. It was reprinted in *The Social Crediter* in 1947 with the addition of the following footnote:

"'Credit is the substance of things hoped for, *the evidence* of things not seen,' and no stable society can endure on *false* evidence."

Those of the late Professors Copland and Robbins, separately, were the last considerable attempts to discredit the economic basis of Social Credit. They received their answer in the short critique by Major Douglas published under the title *The New and the Old Economics,* in 1932. Neglect of Major Douglas's demonstration of the falsity of the ground from which statesmen are presumed to be trying to erect a stable society becomes more reprehensible, the more completely the validity of his arguments is shown by experience. As the crisis in world affairs rises, crescendo, to a tragic level surpassing that of the great depression of the years closely following the first phase of the world war, and repeats, under the flimsiest of disguises, but still more catastrophically, the familiar features of a society tottering to its doom because it will not distribute what it can produce, we republish unaltered the text of the vindication of 1932.—Editor, T.S.C. (1947)

In December, 1973, Major Douglas's critique was again reprinted in *The Social Crediter* and a further footnote was added as follows:

Few consistent readers of *T.S.C.* should fail to realise that in the quarter-century since the above footnote was appended to Major Douglas's article, the 'tottering' has brought us to the very brink of doom. The British are clearly finished—the Anglo-Saxon culture is to all intents and purposes extinct (to the gratification of the One-Worlders, among whom must be numbered Mr. E. Heath and Professor A. Toynbee), and the population enslaved. In the light of current events, the warnings contained in, for example, *The Survival of Britain* can be seen to have been based on reality. The Trap has closed.

But Europe too is ready for absorption into the Communist Empire, the Moscow-Bonn collusion having carefully prepared the way (see *Brandt and the Destruction of NATO:* Foreign Affairs Publishing Co.—London). The Arab-Israeli 'war' was made possible only by the massive collusive arming and re-supply of the puppet 'belligerents' by the U.S. and the USSR, with the objective of cutting off the oil supplies on which industrial society depends, and to make even token resistance to Red Army occupation impossible. This may be either a demonstration or a rehearsal, if it is not yet the beginning of the end. But an economic collapse—probably starting in the U.K.—is now certain and 'Soviets' arising in the anarchic ruins of civilisation will call on the Red Army for support of their "Revolutionary Socialist Governments", for which the Brezhnev Doctrine has prepared the way. After that, the massacres and the Labour Camps.—Editor, T.S.C. (1973).

Although the general conception of Einstein's theory of relativity is now orthodox, there are still large numbers of people—even 'well' educated people—who cannot grasp that theory. It has proved, however, fundamental in dealing with problems of nuclear physics and space exploration, and thus must be seen as so far vindicated by experience. Similarly, the flow conception of the economic process, fundamental to Social Credit theory, remains elusive to large numbers of people; but it is still stigmatised officially not only as unorthodox, but as incorrect. Yet its correctness is vindicated by the development of the present universal economic crisis, long predicted by Douglas, as was also the catastrophic political crisis—largely and deliberately economic in origin, though catalysed by subversion and corruption—which now engulfs us.

Although these interlinked crises are quite undoubtedly due to deliberate and malignant persistence in a demonstrably mathematically defective financial system, it seems useful to make available once again this succinct and conclusive demonstration of the actual operation of the financial system, ignored for more than forty years despite depressions, wars, inflation, and the relentless advance towards Finance-Communist slavery to a point where only the exposure, isolation, and, hopefully, punishment of the Finance-Conspirators can save Western Civilisation from obliteration. For, as Douglas wrote (*Programme For the Third World* War): *"If you can control economics, you can keep the business of getting a living the* *dominant factor of life, and so keep your control of politics*—just that long, and no longer". The control of economics rests on the ignorance of Party politicians of the realities of the economic process.

The New and The Old Economics

SECTION I.

I have been asked to reply to a lecture by Professor Copland, Dean of the Faculty of Commerce in the University of Melbourne, which has been reprinted under the title of *Facts and Fallacies of Douglas Credit,* and published by Messrs Brown, Prior & Co., Melbourne, and I do this the more willingly since Professor Copland's pamphlet brings out a number of points which have proved controversial, in a form which makes them convenient to deal with. Within a month of Professor Copland's address, Professor Robins, of the University of London, read a paper before the British Association criticising some of my theories on somewhat similar grounds (an application to the British Association for a copy of the paper, however, produced the reply that it would not be reprinted in full, and I am therefore obliged to rely on the excellent report contained in the *Yorkshire Post),* and it seems convenient to include a reply to his criticism where it differs substantially from that of Professor Copland. In the following pages, therefore, where the subject matter refers to Professor Robins' remarks, the paragraph will be distinguished by (R).

I will pass over Professor Copland's criticism of my literary style in the first section of his pamphlet, which may be summarised in his paragraph: "Unfortunately, his writings have not been characterised by that clarity of expression that *(sic)* will enable the average man to follow him with certainty." It is, unfortunately, inevitable that the process of pioneering is not usually associated, contemporaneously, with the laying down of high-speed roads, and for that reason I think Professor Copland will agree that books subsequent to the one, the first of the series, which he chooses to criticise on these grounds, have devoted a good deal of attention to making clear obscurities which appeared in earlier efforts.

The subject, is admittedly, a difficult subject, involving many subtleties, both of thought and language, and I confess to a certain amount of satisfaction that large numbers of widely-separated readers of the books to which Professor Copland refers, have succeeded during the past fourteen years in grasping the meaning which they were intended to convey, although, unfortunately, he is apparently not amongst them.

While, for convenience, the English banking system is used for reference, no substantial error is introduced by applying the arguments to Australia.

SECTION II.

Professor Copland states as the essential doctrines of the Douglas Credit Theory, the following: —

1. The creation of credit.
2. The A plus B theorem, and saving.
3. Repetition of money payments increasing prices.
4. The just price and the price factor.
5. The supply of credit through *either* credits to producers *or* dividends for all.

I should not be disposed to join issue in regard to these statements, beyond remarking that they do not go far enough back. It would be more true to say that the whole of my views are based on certain fundamental propositions, of which, for the purpose of Professor Copland's criticisms, the three following are the more important:—*(a)* That financial credit pretends to be, but is not, a reflection of real credit as defined in *(b)*; *(b)* Real credit is a *correct* estimate or, if it be preferred, belief as to the capacity of a community to deliver goods and services as, when, and where required; *(c)* That the cost of production is consumption. With these fundamental contentions, which are basic to my views, neither Professor Copland, nor Professor Robbins, deals.

It is convenient, however, to consider Professor Copland's five subdivisions in the form in which he puts his criticisms, before taking the matter back to a more fundamental form.

The Creation of Credit. — Professor Copland's criticism appears to narrow down to a complaint that I have said that the cash in the banks is constant even though the amount of credit money varies. I find it difficult to reconcile this criticism with the assumption that Professor Copland has understood the simple mathematical reasoning which is used, and I think it is beyond question that he is confusing two mutually irrelevant matters. I have, of course, never said that the cash (by which in Great Britain is meant not merely "till" money, but deposits of the Joint Stock Banks with the Bank of England) is constant in amount no matter what may be the amount of deposits which the banks acquire as the result of creating loans. The ratio of cash to loans, which is generally assumed to be about 1-10, but has at times dropped to 1-15, is simply a result of an actuarial estimate of the percentage of "till" money in a given country which is required to meet the ordinary habits of the population. On August 4th, 1914, as a result of a panic, the population of Great Britain suddenly demanded cash for an unusual proportion of its deposits, with the result that, in the ordinary meaning of the word, all the banks became bankrupt simultaneously. When the depositors had drawn out all the *cash,* about eight hundred millions of *deposits* remained, which were only satisfied by printing Treasury notes. That situation was a proof, if any proof was needed, of the proposition with which the mathematical proof criticised by Professor Copland is concerned. This merely demonstrates that every bank loan creates a deposit. What Professor Copland is saying is that, while every bank loan creates a *deposit,* the banks do not exercise this power beyond a certain point because they may become short of *cash,* which is perfectly true, but they do not normally become short of cash until they have created, say, nine new pounds for each original pound deposited by the public, although they *might,* as in 1914, become short of cash at any time. The only effect of Professor Copland's point, which has never been at issue, is to shift the policy aspect of the matter back to the Bank of England, which has the power of actually creating cash. I have answered this criticism at length in courtesy to Professor Copland, but to paraphrase his own remarks in regard to me, as reported in the Australian Press at the time, I am surprised that an economist of Professor Copland's standing should have fallen into so elementary a confusion of thought. In regard to his second footnote, I can only say that, if he will explain how a manufacturer or farmer can *make* money as distinct from acquiring it from someone else, he can safely expect to be the most popular man in Australia.

Sections III. and IV.

The A plus B Theorem, Saving, and the Repetition of Payments Increasing Prices.

For the convenience of readers who have not read Professor Copland's paper, or the book in which this theorem is contained, it is reprinted herewith:—"A factory or other productive organisation has, besides its economic function as a producer of goods, a financial aspect—it may be regarded on the one hand as a device for the distribution of purchasing power to individuals, through the media of wages, salaries, and dividends; and on the other hand, as a manufactory of prices—financial values. From this standpoint, its payments may be divided into two groups: —

"*Group* A—All payments made to individuals (wages, salaries, and dividends).

"*Group B*—All payments made to other organisations (raw materials, bank charges and other external costs).

"Now, the rate of flow of purchasing power to individuals is represented by A, but since all payments go into prices, the rate of flow of prices cannot be less than A plus B, Since A will not purchase A plus B a proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the description grouped under A."

It is fortunate that the criticism of Professor Copland is practically contemporaneous with a criticism of the same theorem by Professor Robbins, as it is possible to use either of them to confute the other. It is, however, obvious that, at any rate, Professor Copland has not understood, what seems to me to be, its fairly simple language, and what are the consequences which might be expected as a result of its truth.

The A plus B theorem, then, may be said to be first, an assertion that, under certain circumstances, almost universal in modern industry, which will subsequently be specified, purchasing power cannot be equal to prices, if purchasing power and prices are both considered as a flow, which is the commonly accepted and correct method of regarding the matter. The second aspect of the theorem is that it puts forward an explanation as to the mechanism through which this disparity is produced. Obviously, the correct method of approaching the subject, although not that commonly employed by professional economists, is first of all to ascertain if the situation does, in fact, confirm the theorem. Now, fortunately, or unfortunately, it is not necessary to seek very far for this confirmation. I do not suppose that Professor Copland, or any responsible student of the economic situation would deny that it is concerned with a problem of glut, still less would he contend that it was a problem of scarcity. It is admitted that we can produce all we want, but cannot buy or sell to the extent of our productive capacity. Without going over the well-known ground covered by the literature of sabotage, such as the burning of wheat as fuel because it cannot be sold or to keep up the price, the destruction of millions of bags of coffee, the shooting of calves on the Argentine plains, the restriction of rubber tapping, and merely emphasising that this glut of actual consumable products does not take into account the immense unused productivity represented by half-idle factories, large bodies of unemployed, decreasing cultivation of farm lands, and unused processes for increasing the productivity of agriculture, to name only a few of these aspects of the matter, it is quite certain that the introduction of mechanical power into the economic service of man has at least multiplied his productive capacity by the ratio of his muscular energy to the power at his disposal, that is to say, at least fifty times. It is highly probable that the multiplying factor is considerably greater than this. An association of American engineers and technologists at Columbia University remarks: "The advent of technology makes all findings based on human labour irrelevant, because the rate of energy conversion of the modern machine is many thousand times that of man. The total capacity of U.S. industrial equipment is one billion horsepower which does the work of ten billion men, or five times the earth's total population." Both from observation, therefore, and by scientific deduction, we are justified in regarding it as beyond all reasonable doubt that, from the realistic or physical point of view, the world actually is rich and could be much richer in real goods and services, and that economic want is an anachronism.

On the other hand, we may regard Governments as being spokesmen of the financial system, since it is by the sanction of Governments that the existing system is maintained. It is claimed by these governmental spokesmen that we are living in a period of great stringency, that financial economy is necessary, both of the voluntary or saving description and of the involuntary description, which may be for the present purpose described as taxation. Obviously, these two pictures cannot be at one and the same time true. We cannot be rich and poor, in an economic sense, simultaneously. That is to say, the financial system does not reflect the facts of the physical, economic, and production system. Since fact and logic both demonstrate that we are rich, while the financial system says that we are poor, it seems beyond dispute that it is purchasing power which is lacking, and not goods, or, in other words, that the collective prices of the goods for sale are in excess of the purchasing power available to buy them. Professor Copland seems to have some inkling of this in his first paragraph, in which he remarks that: "With many others, Major Douglas finds a disparity between consumers' spending power and production." (sic). I am not specially concerned with any claims to priority, and am, therefore, quite content to agree that I have an increasing body of acquiescence on this point, although I do not gather that Professor Copland admits it.

Turning to the specific criticism of the theorem, Professor Copland begins by remarking as follows: "Taking the first part of this argument, it is assumed that the so-called B payments are not distributed to consumers. This I believe to be the fundamental fallacy of the Douglas Credit Analysis." I think I am justified in retorting to the second sentence just quoted that I think the first sentence is conclusive evidence that Professor Copland does not understand the Douglas Credit Analysis. The B payments to which he refers are specifically stated in the enunciation of it, to be payments made from one producing organisation to another, and are, beyond dispute, the completion of a cycle of cost accountancy. I trust Professor Copland will not consider me unduly elementary if I explain that a cost is created *either* by the application of paid labour to production *or* by the allocation of book costs in respect of previously-incurred expense, or by both together. Payments to labour distribute purchasing power to consumers, who supply the labour as workers, *and* create costs which go into prices of the goods that they produce. The allocation of book costs does not distribute purchasing power, but is the presentation of a claim on purchasing power *already distributed,* and is met, if it is met, by the inclusion of the sum claimed, in price. B payments are a *settlement* of the combined claim produced in this way at every separated stage of production.

Fortunately, Professor Copland, while ignoring the diagram on page 31 of *The Monopoly of Credit,* the book from which he is at the moment quoting, includes a diagram of his own, which confirms my belief. It will be noticed that in this diagram time is non-existent, and apparently, to Professor Copland, is of no importance. That I am not mis-representing him is, I think, proved by his remark, on page 16 of his pamphlet, that it is "not relevant to the point at issue" that "spending power distributed two years ago is not available for consumption today. The several stages of production are in progress at the same time."

Let us suppose that production is divided into five processes, all of them in progress at the same time. Each of these five processes pays its workmen weekly, and each pays £10 in wages. Each one of the factories carrying out the five processes allocates 100 percent on to its direct labour in the form of book charges, which is a very moderate average overhead charge. For the moment we will leave out payments for materials. The total amount of wages distributed in the week is £50. It seems to me to be merely perverse, to deny that the price values or claims on the public created in that week are £100 while the purchasing power distributed is only £50. When factory No. 4 sells its weekly output to factory No. 5, it sells it for £80, and factory No. 5, if it can sell at all, sells for £100. If Professor Copland cannot show me a week in which, in the normal operation of the cost system, this process is not going on, the only question at issue is whether the £50 of overhead charges still exist in the form of purchasing power. It is not merely relevant; it is the major portion of the problem. I might remark that if he can show me a factory which does not allocate book charges, I will show him a factory which is heading straight for bankruptcy.

In order to decide this question, we have to examine the nature of the overhead charges, how they were created, and what financial processes have been associated with them. To make the matter as simple as possible, I shall, for the moment, assume that overhead charges are nothing but charges for the use of buildings and plant, and at a later stage explain how this definition can be extended.

Before, then, each of the factories in the above illustration could commence operation, it had to be built and equipped with machinery. There are two methods by which this operation could have been financed. The first is that it could have been financed out of savings, the method commonly suggested by orthodox financial authorities as that by which capital expenditure is financed. It is very questionable whether much modern finance is done this way. Assuming this course to be pursued, the money to buy the plant must have appeared in the cost of some previous product, and therefore its mere saving causes a deficiency of purchasing power to that extent. If it is now applied to pay the wages, etc., necessary to produce the new buildings and plant, quite obviously these new buildings and plant are produced without the creation or distribution of any fresh purchasing power. In other words, the money creates a second price value, but does not produce any fresh money. This is the simplest, but by no means the only, example of a sum of money appearing more than once in series or chain production, and producing a cost on each occasion without creating fresh purchasing power.

From the ordinary point of view, the people who put up the money are legitimately entitled not only to a profit on this money, but also to get it back again in full, since in their case the money may be assumed to represent past effort, so that the factories in question must make a charge on each article turned out which will provide the money to meet these claims. The only objection to this perfectly fair assumption is that, in the aggregate, the public have not got the money.

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

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

It is now necessary to see to what extent this conception of overhead charges can be extended, and I think that a little consideration will make it clear that in this sense an overhead charge is any charge in respect of which the actual distributed purchasing power does not still exist, and that practically this means any charge created at a further distance in the past than the period of the cyclic rate of the circulation of money. There is no fundamental difference between tools and intermediate products, and the latter may therefore be included. Admittedly, at this point we get into a certain difficulty, both to ascertain the average rate of circulation of money, and the antiquity of the various charges made, but the disparity is so great that, qualitatively, there is no difficulty in proving the point.

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

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

1. Money profits collected from the public (interest is profit on an intangible).

2. Savings, *i.e.,* mere abstention from buying.

3. Investment of savings in new works, which create a new cost without fresh purchasing power.

4. Difference of circuit velocity between cost liquidation and price creation which results in charges being carried over into prices from a previous cost accountancy cycle. Practically all plant charges are of this nature, and all payments for material brought in from a previous wage cycle are of the same nature.

5. Deflation, *i.e.,* sale of securities by banks and recall of loans.

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

Excluding taxation, which is a separate although allied subject, all distributed purchasing power is recovered from the public through the agency of prices. This is just as true in connection with the recall of trade loans as in any other form of expense. It seems obvious, therefore, that, with the exception of savings, the whole of the above causes of the difference between purchasing power and prices can be found in B payments, which are money ultimately on its way back to the bank, and none of them, with the exception of savings, are found in A payments, and if we subtract the A payments distributed in a given week, minus savings from the total prices claimed in a given week, we shall get B payments as a measure of the net debt claims against the public for the week in question.

As bearing upon this, the Association of American Engineers at Columbia University, previously referred to, remarks that "the total debt claim against the physical equipment of all American industry has risen to the fantastic figure of 218,000,000,000 dollars—a debt claim on posterity." They correctly remark that a temporary revival to "prosperity levels" is possible by increasing the debt claim through a policy of inflation, but that a downward oscillation will result from this that is likely to end in the utter collapse of the price system under which industry has operated.

The foregoing is sufficient answer to the quotation from Mr. J. M. Keynes, which begins: "Let X be equal to the cost of production of all producers. Then X will also be equal to the incomes of the public." This is the well-known logical fallacy known as the *petitio principii,* which consists in assuming the truth of the fact which you have set out to prove and then proving the assumption from the logical conclusion. The cost of production is *not* equal to the incomes of the public, and therefore the rest of the argument merely indicates what would happen if it *were* equal.

Professor Copland then goes on to argue that the whole system of production would have broken down had my analysis been correct, and mentions the interesting fact that A payments in Australian industry are about one-fourth of the total value of the output of goods in factories. It is well understood how it has been possible for industry to carry on up to the present time under the faulty financial system we have examined, and the two more important causes are: firstly, the excess of exports over imports, resulting in taking goods out of the country and receiving purchasing power in return for them, thus at one and the same time decreasing the amount of goods in the country and increasing the amount of purchasing power in respect of the remaining goods; and secondly, by a progressively excessive production of capital goods, the A payments of which become available to buy the consumable goods, the method to which reference is made by the American authorities quoted previously. Both of these latter processes have now become, in practice, impossible to any considerable extent, and the present crisis is the result.

It may now be convenient to deal with Professor Robbins' views on the matter.

(R) "Not only is there no reason to attribute a depression to a deficiency of consumption," said Professor Robbins, "but there is, on the contrary, considerable reason to believe that the coming of depression is due to the fact that there is too much consumption." I cannot help feeling that we are indebted to Professor Robbins for putting the logical inference from the financial position into plain words, and it appears to me to be such a *reductio ad absurdum* as should convince anyone that its premises are unsound.

Professor Robbins, however, does not agree with Professor Copland, but remarks: "It was perfectly true, as Major Douglas urged, that the sums distributed as ultimate incomes—wages, salaries, rents, *etc*.—were insufficient to purchase the total product of industry. But so far from that being the cause of industrial crisis, it was in fact an essential condition of the smooth functioning of the industrial system. If a system were considered which was in stationary equilibrium—*a system in which no saving was taking place* [my italics]—it was clear that, of the total volume of payments being made at any moment, only a comparatively small proportion were made for the final product. The remainder went to facilitate the movement of goods between the different earlier stages of production . . . These payments did not go at the moment to the recipients of ultimate income. They were costs, but not net income. In any computation of the net value produced during the unit period they would be set off one against the other, and at the end of such a process there would be available the value of the consumers' goods. To this, and to this only, correspond the incomes of the ultimate factors of production. In many-stage production the net income did not equal gross income, and it was highly undesirable that it should do so. Only in a system of hand-to-mouth or single-stage production was it compatible with the requirements of equilibrium that the net income and the gross income should be identical."

(R) I am not quite sure whether Professor Copland would regard the foregoing explanation by Professor Robbins as being an outstanding example of clarity, but, apart from that and with a slight modification which I will indicate at once, I should be inclined to say that, if I understand it correctly, Professor Robbins has obtained a more accurate conception of the truth than has Professor Copland. The exception to which I refer is in respect of the words which I have italicised—"a system in which no saving was taking place," and I should substitute for these words—"a system in which no saving *had taken or was taking place.*" The real meaning of Professor Robbins' statement amounts to this—that if we can imagine the modern industrial system doing only so much work upon capital goods as to maintain them indefinitely in exactly the same state of efficiency, then, quite obviously, consumption would be exactly equal to production. Under these conditions, the amount of wages distributed on maintenance would obviously be added into the cost of the end products, and collectively with the wages paid to the final producers of end products would be sufficient to buy the end products *always providing that no charges in respect of the original plant, buildings and other capital goods which were merely being maintained, were charged in the prices of either intermediate or ultimate goods,* and that no one made a money profit. The most casual examination of Professor Robbins' example will be sufficient to make it clear that it is not one which has any relation to either the modern costing system or to the actual physical facts of production. In passing, it may be noted that, not only in the case of Professor Copland and Professor Robbins, but in the discussions which took place before the Macmillan Committee in 1930 and at Ottawa in 1923, it seemed to me and to others that the professional bankers and economists were quite ignorant of rudimentary cost accounting, and it is possible that this ignorance may have some bearing on the remarkable divergence of opinion which seems to exist on matters of fact. Not only is real saving in the physical sense, by which I mean a constant surplus of production in a form tangible or intangible, inevitable, apart from being a desirable feature, of the present production system, but there is no possible case in which the present system is worked, as it is supposed to be worked, in which charges do not appear in respect of the use of real *i.e.* physical capital. It is a perfectly proper thing, from a cost accounting point of view, for a workman to charge for the use of a hammer, and the moment he does this he is making charges in respect of capital. When the banking system endeavours to drive down prices by deflation, so as to make it impossible to collect these charges, it is merely transferring the injustice which it normally inflicts on the general public, to the manufacturers and the investor, who have been induced to undertake the business of providing goods and services on the tacit understanding that not only shall they be paid for their present work, but that they shall be paid for their past work, which in their case is represented by savings which they have invested in the new business. The banking system can at any moment, and normally does, make this payment impossible, eventually forcing the liquidation of the assets without compensation to the persons on whom it is continually urging the necessity and virtue of saving.

Section V.

The Just Price and the Price Factor

Professor Copland quite correctly states that this part of the Douglas theory follows naturally from the A plus B theorem, and it follows equally naturally that, as Professor Copland's criticism of the A plus B theorem is invalid, his criticism of the price factor is also invalid. There is a method, however, of looking at the matter which arises from the more fundamental proposition that, while in the modern world consumption is less than production, under the existing financial system it is necessary for the producer to recover costs and prices from the public at a greater rate than he makes disbursements. This means that the consumption rate represented by prices is greater than the production rate represented by direct costs, and is the direct reversal of the physical facts. Nevertheless, it is an essential to the producer who is bound by the conventions of the financial system, otherwise he would make a loss on a year's work, having issued more money than he recovered.

The greater part of the surplus production is capital production, and we have to find a method of restoring his money to the producer of capital goods as soon as they are produced, while only charging the consumer for them at the rate that they are used up. The justification for this, of course, is that real credit is a measure of the rate of production. So that, if total production = (B) capital goods + (A) consumption goods, production costs are A + B,

but true consumption costs are $(A + \frac{B}{X})$ where X is the average life of real assets, and if we are only

going to charge the consumer true costs, we have to pay the producer $B - \frac{B}{\ }$

representing the value of

X

the capital goods, to enable him to carry on his business. But if, in addition, he recovered the whole of his costs eventually from the public in prices, he would have recovered his costs twice over, therefore it is necessary to reduce the price to the public by the same amount

B

B — — that we repaid to the producer of capital goods, that is to say, retail prices must bear the same

X

ratio to total costs that consumption does to production.

SECTION VI.

The Supply of Credit

As Professor Copland specifically states on page 22: "Major Douglas denies that there will be any increase in prices with an increase in the credit issued resulting from his application of the price factor. His denial would be valid if his A plus B theorem were correct, but this theorem is itself invalid". It will be seen, therefore, that the criticism of this section is really answered by the rebuttal of Professor Copland's criticism of the A plus B theorem, and is, in fact answered by Professor Robbins. It is a curious fact, to which I do not take exception, that although Professor Copland presumably has the Minutes of Evidence of the Macmillan Committee, he prefers to quote my evidence on this matter given before the Canadian House of Commons ten years ago. I am, however, satisfied to rely upon the answer given by me as quoted by Professor Copland, and repeated here. (Q) "What is to prevent this?" *(rise of prices).* (A) "Because the rise of prices which occurs in connection with the printing of what is referred to as fiat money takes place in accordance with the *assumption* that the price of an article is what it will fetch, and (that) if there is more money in the market in relation to the same amount of goods, and people want the goods, then it is clear that the articles will fetch more money, and that is what causes the rise of prices in connection with what is called fiat money. That takes as an axiom that you have a rise of prices in connection with the increased supply of money; but if you apply the increased supply of money, if you like to put it that way, to the reduction of prices, that is a condition of affairs which cannot possibly take place, because the application of money does not take place unless you get a fall of prices. It is impossible. If I say I will let you have 5 dollars towards an article which costs 20 dollars if you charge 15 dollars for it, then you do not get the 5 dollars unless you charge 15 instead of 20 dollars; and the provisions which can be made to ensure that that takes place are perfectly obvious by means of such a thing as a discount voucher or something of that sort; so that the rise of prices cannot possibly take place." Professor Copland's only comment on this is an unsupported statement that the increased money would raise prices.

Perhaps, however, the answer to Professor Copland's contention is contained in the fact that the payment for an article from two sources is in operation all over the world at the present time. If I, having a capital of £1,000,000, manufacture an article, of which the cost of manufacture is £5, and owing to economic depression I am forced to sell the article for £4, I am applying my private store of credit which I call my capital of £1,000,000 as a subsidy in aid of a reduction of prices to the extent of 20 *percent.* I can go on doing this until I have sold one million articles at £1 below cost. Furthermore, I can go on doing it indefinitely if my bank will give me an indefinite overdraft. If Professor Copland will explain to me exactly where and how at the present time this most unquestionable selling below cost by a draft upon credit is raising prices, I shall be infinitely obliged to him.

Nothing is more curious than the terror which seems to possess the conventional economist at the suggestion of anyone having more money. *

*American Bankers' Association Circular, 1877.

I am confident that Professor Copland is quite sincere in his views, but I think they arise from the unconscious effects of a training moulded in accordance with banking interest. The essential point, of course, is that the limitations placed upon the distribution of goods shall be either the physical limitations of the productive system, which limitations have, in fact, practically disappeared, or the limitations imposed by psychological and physical satiety. In common both with bankers and most orthodox economists, Professor Copland evidently desires that all controls shall be in the hands of the banking system, in which aspiration I do not agree with him.

Professor Copland in this case also provides a diagram to show how the system suggested would work. This diagram begins by stating that producer's costs are £200, specifically described as A plus B payments. The producer is then shown as paying out £200 to the consumer, whose income is consequently shown as £200. I am sorry to have to repeat myself so often, but the consumer's income and the producer's cost are not one and the same thing. Once again, Professor Copland seems quite oblivious to the existence of anything called time. In his diagram he shows the consumer's income increased by £50 owing to the operation of the price factor, at the same moment that the article to which the price factor will subsequently be applied, is still in the production stage, and, I think quite gratuitously, labels this £50, "inflation." It may be convenient at this point to define inflation, which is an increase of money tokens accompanied by an exactly equivalent rise of prices, so that the two sides of the account (money and prices) still bear the same ratio to each other, but are both larger. It may also be convenient to explain that the £50, which by his hypothesis the consumer gets, is the £50 which is necessary to pay for the charges which are *allocated* to the direct cost of production, but which are really carried over from a previous cycle. The validity of these consumer credits rests wholly on the assumption that two processes are taking place in the productive world at one and the same time, the creation of real credit, not only by the production of goods for consumption but by the production of goods, processes, and systems, which increase the rate of production. And, on the other hand, the opposite process of consumption, which includes not only goods consumed in the ordinary sense of the word but all forms of deterioration. To say that these are equal is simply the same thing as saying that we could not produce any more goods and services if the whole of our available labour were employed in the whole of our available factories for the whole of the available time. If Professor Copland is not prepared to contend that this is the present situation, then he must admit that capital appreciation is greater than capital depreciation, or we could never have got where we are. If he admits that, the only question at issue is: To whom does the difference between capital appreciation and capital depreciation belong? The Marxian contention is that it belongs to Labour. My contention is that, being overwhelmingly the result of that which for short may be called "cultural inheritance," it belongs to the community. The banking organisation on the other hand quite specifically contends, whether it says it or not, that it belongs to the banks, and implements this contention by only issuing financial credit against this balance of real credit upon its own terms. I am quite content to leave to the judgment of the general public the decision as to which of these contentions is correct.

SECTION VII.

Professor Copland summarises his conclusion that my theories are unsound under the following headings: —

"(1) It gives a wrong interpretation of the functions and powers of banks to create credit.

(2) It ignores the fundamental relationship between credit and prices.

(3) Its analysis of the disparity between costs of production and spending power is fallacious.

(4) The determination of the Just Price through the application of the Price Factor is consequently misleading.

(5) The issue of credit of the amount required by the theory would undoubtedly raise prices and cause general inflation."

In regard to (1), apart from the short comment upon his criticism which I have made, it may be sufficient to remark that there is no real difference of opinion by any recognised authority upon this point, and certainly not by the Macmillan Committee. Joint Stock Banks quite certainly do create financial credit up to the limitations of their agreed ratio of cash to deposits, and if central banks are included, there is no limitation to the power of banks to create financial credit.

(2) I am afraid the only answer to this is that the fundamental relation between credit and prices is not what Professor Copland thinks that it is, but is the relation between production and consumption.

(3) I trust that the somewhat lengthy discussion of this point has now made the matter clear.

(4) Any criticism of the Just Price through the application of the Price Factor fundamentally must rest on the relationship between production and consumption.

(5) Apart from the fact, which I think is obvious, that Professor Copland does not understand the basis on which it is proposed to issue credit, his argument is that it would cause a rise of prices. Curiously enough, practically all the banks, and practically all the economists who advise banks (although many equally reputable share my views) are now saying that what is required, as the phrase goes, to "restore prosperity" is a rise of prices, and that the present crisis has been produced by a fall of prices. While I do not agree with this, Professor Copland cannot have it both ways, and it seems impossible to avoid the conclusion that what he objects to is not a hypothetical rise of prices, but a rise of prices produced without the creation of a fresh debt to the banks, where again I do not agree with him.

As an argument against the necessity for any measures of this character, he remarks that statistics show that real wages have almost doubled since the Napoleonic Wars, while many social amenities, such as free education, have been provided for the people. The first contention is, if I may say so, completely damning to his argument. If real wages have only doubled in this country in 100 years, while rates of production have increased by at least 50 times, then the population has been defrauded of all but 4 *percent* of the increase. As I previously remarked, the increase is probably much more than 50 times, but I am satisfied to understate the case. In regard to his second contention, the social amenities and free education to which he refers are not free at all—they are paid for by taxation of incomes already, for the most part, too small. Taxation is simply a form of compulsory saving, is essentially deflationary in character, and merely means a decreased demand upon consumable goods.

I feel that it is neither becoming nor desirable that at this distance I should comment on Australian banking policy, to which the last section of the pamphlet is devoted, beyond directing the attention of the Australian public to the exact meaning of a balanced budget, as explained in Chapter V of *The Monopoly of Credit.* Professor Copland concludes by remarking that there is no prospect that the Australian banks will put the Douglas Credit Theory into operation. So far as the decision rests with the banks, Australian or otherwise, I feel sure that he is right. But, while no doubt a good deal of serious trouble may intervene, it is I think, the opinion of an increasing and by no means impotent body of the public in every country that action, substantially along the lines I have indicated, is essential to the progress of civilisation. If this opinion is correct, then I think I am justified in recalling not merely to Professor Copland, but to the controllers of the institutions who obstruct such progress, the well-known answer given by George Stephenson to an enquirer who asked what would happen if a cow got in front of his locomotive.