

# CREDIT-POWER AND DEMOCRACY

---

*WITH A DRAFT SCHEME FOR THE MINING INDUSTRY*

BY

**C. H. DOUGLAS**

**MAJOR, ROYAL AIR FORCE (RESERVE), M.I.MBCH.E.**

AUTHOR OF "ECONOMIC DEMOCRACY" WITH A COMMENTARY ON THE INCLUDED SCHEME BY

A. R. ORAGE, EDITOR OF "THE NEW AGE"

LONDON

CECIL PALMER

OAKLEY HOUSE, BLOOMSBURY STREET, W.C.1

1921

First Edition                      October, 1920

Second Edition                    May, 1921

TO MY OLD, THOUGH YOUTHFUL, FRIEND, C. J.

# Credit Power and Democracy

## *PREFACE*

MAN does not live by bread alone but without a reasonable amount of food, clothes and shelter, his activities on this planet are both circumscribed in extent, and unduly limited in duration. In what is undoubtedly an attack on certain features of the so-called Capitalistic system, in this book, no attempt or desire to judge that system on any grounds but those of workability is made or implied. The business of an economic system is to deliver the right goods to the right users, and the private financing of public production is doomed because it is failing signally in delivering the goods. That is moral which works best.

C. H. DOUGLAS.

HEATH END,

BASINGSTOKE,

October, 1920.

# Credit Power and Democracy

## Table of Contents

CHAPTER I.....	1
Fallacy of Marxianism - Administration is not the organ of policy-control - Definition of individual freedom - Policy of industry rests with finance - The bank is its organ - Meaning of Democracy - The "change of heart" idea - The modern Pharisee. ....	1
CHAPTER II .....	5
H. L. Gantt on Industrial Efficiency - The ownership of the product of industry - The basis of collective industry - The leverage of real capital - The flow theory of prices and purchasing-power - The artificial necessity for exports.....	5
CHAPTER III .....	9
The two divisions of Estate - The business of mobilising credit - Effect on prices - And on variety of production - Why the public does not control production.....	9
CHAPTER IV .....	12
All credit-values are communal - Credit and price making are complementary and indispensable - Why the present economic system fails - Why the present control of production is anti-public - The climax approaching - The advantage of the dividend - Destined to succeed the wage - Centralisation of Finance and Labour - Power - Misdirection of effort - The precedent condition of Economic Democracy. ....	12
CHAPTER V .....	15
Breakdown imminent - The attack on ownership - A phantom enemy - Analysis of Nationalisation - A reversion to the Middle Ages - The Two Great Policies - The lesson of Russia - A financial problem of centralised credit. ....	15
CHAPTER VI .....	18
The two aspects of credit - Both based on psychology - The administrative basis and the machine gun - The nemesis of Fabianism.....	18
CHAPTER VII .....	20
The Capital Levy - What it means - Who would pay it - The immunity of the price-maker. ....	20
CHAPTER VIII .....	22
National Guilds - Their genesis - Their corruption by Fabian thought - The use and abuse of Committees - The prerogatives of policy - The diminishing importance of " Labour " - Its lost opportunity - The site of the final struggle. ....	22
CHAPTER IX .....	25
Summary of analysis of the Machine Age - Trust - Capitalism essentially anti-public And anti-democratic - The nature of the coming State.....	25

# Credit Power and Democracy

CHAPTER X .....	28
The production of Real Credit - Delusive accounting - The limits of Financial Credit-issue - Present economic system based on currency - Coming system will be based on Real Credit - The fraudulent standard - Delivery is part of credit-basis - The fallacy of "National Poverty" - Increased effective demand necessary. ....	28
CHAPTER XI .....	32
Fitness the qualification for executive authority - The producers not the owners of the product - Solar energy the great producer - The method of policy control - The Producers' Bank - Its operation - The consumer-interest in it - The community-component of credit - How it would operate in the coal industry - The " Idle Rich." .....	32
CHAPTER XII .....	36
The measurement of Credit-production - What is "capitalisation"? - The growth of wealth - True Price - The sources of statistics.....	36
CHAPTER XIII .....	38
Finance as a creator of things - The producer-credit school - A form of Syndicalism - The tyranny of " work " again - Analysis of producer-credit - Certain rise of prices And failure - Consumer-control the only way to free producer-initiative - The world conspiracy - The end.....	38
APPENDIX.....	42
A PRACTICAL SCHEME FOR THE ESTABLISHMENT OF ECONOMIC AND INDUSTRIAL DEMOCRACY.....	42
THE (MINING) SCHEME.....	42
COMMENTARY BY A. R. ORAGE .....	43

# Credit Power and Democracy

## CHAPTER I

### **Fallacy of Marxianism - Administration is not the organ of policy-control - Definition of individual freedom - Policy of industry rests with finance - The bank is its organ - Meaning of Democracy - The "change of heart" idea - The modern Pharisee.**

ONE of the most fundamental fallacies which has ever afflicted a just cause is the delusion so dear to the sentimental propagandist of the Labour Movement, that Labour (by which the broader-minded of such advocates mean labour both by hand and brain power) creates all wealth. With this idea goes inevitably the assumption that Capital and Capitalism are one and the same thing, both being of the devil.

Mention has been made of this matter before<sup>1</sup>, but the subject is of such outstanding importance at this time that no apology seems necessary for a further effort to clear away a little of the misconception in which the actual relationship of Capital, Labour, and the Community has become involved, as much from the distortion and suppression of facts by the Financial Hierarchy as from the misdirection of organised Labour by persons of more zeal than discretion; a misconception which is tragic in its influence on the strategy of the Labour Movement, since it results in forever placing that strategy in a position of antagonism to the interest of the rest of Society.

Before proceeding to the further examination of the facts, it may not be without value to note the willingness with which the orthodox i.e., capitalistic Press is prepared to allow this contention, or, at any rate, its implications, to go by default. Witness the unctuous agreement, heard on all sides, with the sentiment that Labour, as such, should increasingly share in the "control" of industry. This sentiment is, of course, derived from the major premise, because it is clear that if Labour produces all wealth, then the democratic control of Labour by itself i.e., elective and representative industrial administration means the democratic control of the production of wealth.

It is amazing how this error has misled millions of men and women, determined to assert their claim to consideration, whose experience of life is yet sufficient to expose the fallacy of it. The foreman controls the workshop and all who labour therein; does he then control production? But perhaps the manager, who controls many foremen, is the ultimate focus of power? Ask him, and he will tell you that he is the slave of the sales department on the one hand and the chairman of the board on the other. The chairman must clearly be seated on Olympus; but observe this demigod when, faced with a deficit on the year's working, he endeavours to convince a shareholders' meeting that all is well with their undertaking, because the staff is contented and the product is unrivalled. It will avail him little that each shareholder may be a believer in democracy in industry.

Yet in the face of the determination of organised Labour to "share in the control of industry," see how a broad-minded Press agrees with them. It is all for a Guild Socialism of the glorified Whitley Council

---

<sup>1</sup> **Economic Democracy** (Cecil Palmer.)

## Credit Power and Democracy

variety. The columns of any metropolitan newspaper in England or America are open to the description or discussion of such "committee" schemes, and will print reams of articles by their more distinguished advocates, even where they condemn their conclusions. From which the cynically minded may justifiably conclude that there is no danger to capitalism in a bushel of them.

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

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

Hence we see that **the last word on policy is with finance, not with administration, and is concerned with the control of credit by the banks; and to democratise the policy of production we have to democratise the control of credit.**

Before concentrating on this problem of the democratisation of the bank, and of the practical application of the credit principle which it administers, the satisfactory solution of which will have incomparably greater influence on the future of: the world than any other single change of which we can conceive at this time, let us consider for a moment Democracy itself as an organised system of carrying on the business of society as a whole.

**Democracy is frequently and falsely defined as the rule of the majority;** a definition quite sufficient to account for its unpopularity with many persons whose opinion is not unworthy of consideration. As so defined, **it is a mere trap, set by knaves to catch simpletons; the rule of the majority never has existed, and, fortunately, never will exist.** If such a thing were possible, it would be the ultimate Terror, beside which the worst individual despot would seem a kindly patriarch. It is under cover of this definition, however, that unscrupulous men in every country are enabled to evade the consequences which antisocial intriguing would bring upon them, by working up a spurious, because uninformed, public opinion, which is the greatest barrier to effective and rapid progress known to the hidden hands of finance and politics. **Real democracy is something different, and is the expression of the policy of the majority, and, so far as that policy is concerned with economics, is the freedom of an increasing majority of individuals to make use of the facilities provided for them, in the first place, by a number of persons who will always be, as they have always been, in the minority.**

Any other conception of democracy simply does not take cognisance of the facts, does not believe in human nature as it is, and, consequently, taking its stand on the doctrine of original sin, requires as a first postulate of improvement a change of heart which is expected to make all men and women over again, so that a standardised world will be uniformly attractive to all of them. A standardised world

## Credit Power and Democracy

requires someone to set the standards, and it is to this authoritative democracy that the capitalistic governments of the world are willing, if they must, to resign the sceptre of Kaiserism and plutocracy, knowing quite well that it will avail nothing that Labour has its administrative councils, its shop committees, its constituent assemblies, or even its Soviets, so long as the control of credit enables the real policy of the world; the policy which controls the conditions under which mankind obtains board and clothing, without which the mightiest genius is more helpless than a well-fed idiot to be dictated from the sources out of which it now proceeds.

Let no one imagine that real democracy, however, has its opponents only amongst the great financiers, ecclesiastics, and politicians. There are just as many potential despots amongst the careerists of the Labour movements as among the employing class, and in a mere choice of tyrants it is quite a sound principle to keep the devil you know in preference to the devil you don't know.

A warning in regard to this aspect of the situation is contained in the arbitrary division of society, now so popular with captains of industry, "sane" Labour leaders and extremists alike, into "workers" and a "parasitic class," the latter being supposed to be without useful function, and having no "right" to exist, held up to execration as battenning on the virtuous industrial system, and robbing it, by so much as that class consumes, of what is its moral due. I realise the unpopularity of any defence of this class, but it is a defence which has to be undertaken, not from any special liking for the task (though Mr. Bertrand Russell, in his defence of idleness, has shown that to be quite reasonable), but because the attack on it leads nowhere useful. In the first place, when we leave the easy ground of generalities and come down to concrete detail, we find it overwhelmingly difficult to define useful work. Not only is it difficult, but it is in the highest degree mischievous.

In spite of the fact that the Founder of Christianity directed his most biting invective against the legal and juristic habit of mind of the priests and scribes " who made the Word of God of none effect by their traditions" this desire to classify and pass sentence upon every variety of human effort has been the curse of the churches and codes of the Christian era. At this time there goes up in Central Europe a cry for bread such as (perhaps) the world has not known for centuries; the mutterings of coming revolution are heard in every country; yet **the victims of this deadly habit of mind, both on the side of Capitalism and Labour, are still explaining that, unless a man do "useful" work, neither shall he eat; regardless of the fact that both England and America are glutted with goods, that in both countries foodstuffs are allowed to rot, or are being actually destroyed, in order to keep up prices, the high-priests of industry cry for more and yet more production as a condition of existence, even though that production may be, as it often is, detrimental to society in general, and the worker in particular.**

On the side of Labour a great part of the force which this movement against "parasitism" has acquired is due to the idea that it is only by the strenuous efforts of the orthodox worker, straining every nerve and muscle, that the world is maintained at its present standard of living; whereas it is, on the contrary, **only by the most gigantic and organised sabotage on the part of the capitalistic system and Labour itself, not only positive but negative by the refusal to use modern tools and processes, as well as the misuse of them that the standard of living is prevented from rising higher, with the expenditure of less human effort, than the most exacting would require at this time.** In effect, the validity of the Labour

## Credit Power and Democracy

protest rests, not on any prerogative Labour possesses of fixing the value of any individual to Society, but on the practical question as to whether Society would be benefited if the protest against parasitism were upheld. Since it may be contended that no reasoned argument has yet been brought forward to show that the "just" payment of Labour is not measured by the total of what Labour produces, it is one of the objects of the following pages to show that **to strain after 'justice' in this manner is not only to miss it, but is the sure and certain way of handing over the world afresh to the tender mercies of the high-priests and the scribes.** In passing, it may be observed that Labour has never been in danger from the Idle Rich it is the hardworking rich who are the chief champions of the status quo.

# Credit Power and Democracy

## CHAPTER II

### **H. L. Gantt on Industrial Efficiency - The ownership of the product of industry - The basis of collective industry - The leverage of real capital - The flow theory of prices and purchasing-power - The artificial necessity for exports.**

THE late Mr. H. L. Gantt, one of the most capable and enlightened industrial engineers that America has produced, is reported to have said that *the industrial efficiency of the United States was about 5 per cent, in 1919*. He was under no delusion as to the cause of this; *it was because it did not pay those in control of the industrial process to make it any higher, not, be it noted, because those operating it did not know how*.

This is a remarkable statement, coming from such a source, and has a number of important implications. If we assume that an overall industrial efficiency of 75 per cent, is attainable (by which we mean that 75 per cent, of the output possible with a given number of man-hours, working on a given plant, might be obtained and distributed), and we also assume, as is the case, that the United States is able to produce all she wants by working at the low efficiency quoted by Mr. Gantt, then, without working any harder, she could, under proper conditions, produce the same amount by the same number of persons working one-fifteenth of the time they now work i.e., about thirty minutes per day instead of about eight hours, or by one fifteenth of the present number of persons working the same hours. *As the economic distribution system stands at present, such a condition of affairs is impossible of attainment, because, although the goods would be produced, the purchasing-power to buy them would not be distributed. The enormous increase of sabotage of all descriptions which is the outstanding feature of contemporary industry is due to the blind effort to equate purchasing-power to production without altering the principles of price-fixing.*

Now the possibility of meeting the requirements of society for goods and services in a small and decreasing fraction of the man-hours, or time-energy units, which society has at its disposal comes from improvements in the industrial machine as a whole. If there is one thing more certain than any other in this uncertain world it is that the industrial machine is a common heritage, the result of the labours of generations of people whose names are for the most part forgotten, but whose efforts have made possible the triumphs of the past hundred years. Therefore, while society is justified i.e., is judicious in demanding that this machine shall be operated by those capable of obtaining the best results from it, irrespective of any other considerations whatever, society as a whole, not the operators Labour or any other function of society, has a "right" to the product, a "right" founded in the nature of things because, if it is denied, the machine begins to develop abnormal friction, with a consequent loss to every constituent member of society.

It must be borne steadily in mind in considering this question that *the object of industry is not work for its own sake; the industrial system exists firstly because society has need of goods and services*. The fact that the creative instinct of mankind can find satisfaction in craftsmanship is beside the point; *men associate together in collective industry because they hope, and are justified in hoping, that there is an*

## Credit Power and Democracy

*unearned increment in association; that they will thereby obtain the required goods and services with less effort than by isolated endeavour.*

Let me, if possible, make this point clear beyond any misunderstanding. It is a question of priority. After the fundamental requirements of humanity for food, clothing, housing, etc., have been met, any excess energy in the community must find an outlet. Any man whose energy is in excess of that necessary to maintain his vital processes wants to work, in fact must work in some way, as an elemental proposition in dynamics. Therefore the more this maintenance of life can be shifted from the backs of men on to the backs of machines, the more important it is to find a creative outlet for the human energy released, and the more certain is it that a considerable portion of this energy will, without compulsion, be devoted to the improvement of the industrial machine. That is to say, if a practical policy based on these considerations be pursued there will be a fall in the man-hours required for routine or operating work, and a consequent rise in the man-hours available for design and research work. The industrial machine is a lever, continuously being lengthened by progress, which enables the burden of Atlas to be lifted with ever-increasing ease. As the number of men required to operate the lever decreases, so the number set free to lengthen it increases. It is true that, *owing to the defective working of an outworn financial system, the lengthening of the lever has been offset by obstacles to its beneficent employment, but these very obstacles, by raising up a worldwide unrest, will secure a rectification of the means of distribution, which is the first step to a better state of things.*

In order to see that this is so, it is necessary to restate in general terms an argument which has been dealt with elsewhere in detail ("Economic Democracy"). *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  $A + B$ . The product of any factory may be considered as something which the public ought to be able to buy, although in many cases it is an intermediate product of no use to individuals but only to a subsequent manufacture; but *since A will not purchase A+B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing-power which is not comprised in the descriptions grouped under A*. It will be necessary at a later stage to show that this additional purchasing-power is provided by loan-credit (bank overdrafts) or export credit.

This somewhat elusive conception, the grasp of which is vital to an understanding of the modern economic problem, may be made clearer by considering Labour as an intermediate product, the raw material of further production, which is, of course, the orthodox capitalistic view, and imagining a

## Credit Power and Democracy

Labour corporation for instance, a trade union as being in a position to make up the costs and consequently the selling price of this commodity on orthodox principles. In this case using small letters, group 'b' would include all the costs of living i.e., the overhead charges of the men who are the "machines" for the production of Labour and group 'a' would be their direct remuneration, and the "factory cost" of the commodity would again be 'a' + 'b'. Let us call this "factory-cost-of-Labour" 'c.' Now 'c' cannot be greater than A in the preceding formula for material - production cost, and yet if human beings are to buy A + B with their earnings and dividends, A + B must be included in 'c.' Again we see that this is only possible by the inclusion of an external factor - credit - which allows an ostensibly stable value 'c' to mean different things at successive intervals of time.

The general statement has been put with great conciseness by "H. M. M." in a letter to The Guildsman:

"The explanation of this is that in highly developed countries such as ours practically all purchasing power commences life as a credit created by the banks. These credits are created at the instance of manufacturers and dealers; are distributed by them in the shape of wages, salaries, and profits, and spent. Trade is thus almost entirely carried on with borrowed money or credit, although the fact may be hidden at various points. The goods we buy are produced on borrowed money; the money we buy them with goes to extinguish the debt; but money itself is derived from credits that have been borrowed from the banks, and consequently its value must reappear in selling prices somewhere, and be recovered again from the consumer if the banks are to be repaid their advances. It is clear, therefore, that one credit is only cancelled by the creation of another and larger credit"

In considering the above arguments, let not the reader allow himself to become confused by the fact that B has at some previous time been represented by payments of wages, salaries, and dividends. While this is of course true, it is irrelevant; it is the rate of flow which is vital. The whole economic system is in ceaseless motion. Purchasing-power is constantly flowing back from individuals into the credit system from whence it came, and *if the outflow is less than the inflow, someone has to lose purchasing-power.*

At the moment the point to be borne in mind is that B is the financial representation of the lever of capital, and is constantly increasing in comparison with A. So that, *in order to keep A and the goods purchased with A at a constant value, A + B must expand with every improvement of process*, while at the same time this increased production must, in the nature of things, be of such a nature as will enable it to be paid for under Group B. It must not, therefore, be an ultimate product - something that human beings, as such, require for their personal use - but must take the form of factory buildings, machinery, etc., for the production of which bank overdrafts can be obtained, or else be production for export. A consideration of these matters will remove any difficulty in understanding why the orthodox manufacturer is calling so loudly for increased production, increased exports, and economy of consumption by individuals, without obtaining any very enthusiastic response from Labour; and why, in consequence, the cost of living rises daily.

## Credit Power and Democracy

## Credit Power and Democracy

### CHAPTER III

#### **The two divisions of Estate - The business of mobilising credit - Effect on prices - And on variety of production - Why the public does not control production.**

THE estate of any society or community may always be considered as having two component parts - wealth and capital. If this statement is considered from a realistic point of view, it means that the said estate consists not only of ultimate commodities, services, and amenities in existence, but the capacity for reproducing or enhancing them if destroyed. This latter component is essentially bound up with time; it involves a rate.

Finance is, or should be, a reflection in figures of physical facts, therefore we ought to, and in fact do, find that the physical facts of social estate are represented by two divisions in financial estate - cash and credit: cash being the instrument of retail transactions or transfers of ultimate commodities; and just as real capital represents potential production of ultimate commodities, so financial credit is convertible into the cash which will buy them.

Now, it has been universally recognised that the minting of money is a prerogative of the community, State, Government, or whatever name we choose for the moment to apply to the body politic, and the coining and counterfeiting of it has uniformly been penalised; but the creation of financial credit which is convertible into money has become a lawful, recognised and respected occupation open to any association or individual who can obtain the confidence of the community and is in possession of the necessary facilities and technique. Let me explain.

Imagine an individual possessed of a reputation for wealth and probity to open an office in the City of London. It is immaterial whether he has the wealth or not. Such a man may conceivably go into business as a dealer in debts i.e., a large number of persons may find it convenient to go to him with their claims against each other for collection and settlement. At first he will collect the money (cash) from each debtor and pay it over to his client, but it will soon come to pass, as his business expands, that there will be cross-debts. Brown will owe Jones for boots, but be owed by Robinson for corn, who has a claim against Jones for leather. It will be simpler for everyone concerned that our debt-dealer should "clear" or set off these debts against each other and pay over the balance where it belongs. But the final creditor may and will know that he will have more similar transactions and will instruct his debt-dealer or banker to hold this balance against such a contingency. The banking business expands; and everyone finds it simpler to leave their balances with the banker to the "credit" of their accounts, circulating in place of coin pieces of paper or cheques instructing the aforesaid banker to adjust their credits in accordance with the transactions they represent. So far so good. 1 Enter now the enterprising manufacturer or trader, who explains to the banker that he has received a large order, wishes to purchase raw materials whose value is in excess of his "credit" balance, and would like to deposit the title-deeds of his factory as security for a loan. The banker agrees, on terms; and the borrower is allowed an "overdraft" on his credit account. As by now only a small proportion of the banker's business is done in

## Credit Power and Democracy

cash, this means for the most part a circulation of cheques. But the important point to notice is that this overdraft is just as absolutely new money as if the banker had coined it or printed bank-notes for the amount. None of his other clients have the figures of their credit accounts altered by the transaction, and the title-deeds deposited as security are returned unaltered when the "overdraft" is balanced. This new credit, however, dilutes the purchasing-power of all other money so soon as it becomes operative as a demand for goods, because under the financial "law" of supply and demand prices equal effective demand i.e., desire to purchase backed by money to buy, divided by number of articles for sale.

Observe that the transaction is a proper and, from certain points of view, desirable one. Production is necessary, and this transaction enables production to take place. It is flexible; an enterprising individual without sufficient purchasing-power was enabled to draw it from the community and to make something. From the producing side it is a good system, although it leaves to the banker the decision as to whether the production is desirable production. But let us follow it a little farther on the assumption that it is no use producing things unless someone gets them.

Our manufacturer, having got his overdraft, "gets busy." More men are taken on, not only at his factory but at the factories of the allied traders who supply him with intermediate products, and, as our Federation of British Industries would say, there is more employment for everyone. Quite so. But the first thing to note is that all these concerns are distributing purchasing-power to individuals, in the form of wages and salaries, ahead of production, which causes a rise in the price of existing ultimate commodities, the only commodities that individuals buy; or, to put it in the way described above, all money existing is diluted. Secondly, they are distributing this purchasing-power obtained out of "credit" largely (and this is increasingly true) in respect of capital production i.e., things which in themselves are of no use to consumers: tools, factories, etc. The community as a whole, therefore, is producing and being paid for real capital as well as ultimate products, and much of the real capital is permanent and survives the lifetime of its producers.

Now consider these points in connection with the proposition explained in the foregoing chapter viz., that the current flow of wages, salaries, and dividends is less than the current flow of price-values of articles produced bearing in mind the fact that prices vary between a lower limit represented by cost of production and an upper limit defined by "what they will fetch" i.e., effective demand. It will be seen, as has been pointed out by Mr. A. R. Orage and other writers on economic subjects, that the wages and salaries (already insufficient to buy the whole production) tend to be diluted in value until they represent the subsistence allowance of the persons concerned in other words, total prices of ultimate commodities barely necessary for the accepted standard of life tend to equate themselves to the total effective purchasing-power of individuals, and this is true even if dividends to individuals are included and are widespread. Consequently, and this is the all-important point we wish to make, although the unregulated system of credit-issue and pricemaking distributes purchasing-power both in respect of capital production (tools, factories, intermediate products) and ultimate products (necessaries, services, amenities), it takes back in the prices of ultimate products only, practically the whole of this purchasing-power, leaving the community, considered as a permanent institution, in the position of having bought both the plant and the product, but having only got delivery i.e., control of the product. Such a state of affairs so long as it continues makes the control of the policy of the world in the interest of the

## Credit Power and Democracy

community a mere sentimental chimera no nationalisation, guildisation, or any other administrative manipulation can affect the existing control otherwise than to introduce friction into it (at the cost of everyone concerned) so long as the prices of ultimate product the taking back of purchasing - power derived from credit are equal to or greater than "costs" the dispensation of purchasing power derived from credit. Further, the existing control is semi-automatic; every increase of credit-expansion on these terms means a greater capital-production and a proportionately smaller use of that capital to deliver ultimate products.

## Credit Power and Democracy

### CHAPTER IV

**All credit-values are communal - Credit and price making are complementary and indispensable - Why the present economic system fails - Why the present control of production is anti-public - The climax approaching - The advantage of the dividend - Destined to succeed the wage - Centralisation of Finance and Labour - Power - Misdirection of effort - The precedent condition of Economic Democracy.**

As a result of the foregoing analysis, then, it seems certain that:

- a) All credit-values are derived from the community, regarded as a permanent institution; not merely from the present generation of workers "by hand and brain."
- b) The rate of production is primarily dependent on the scientific and cultural inheritance of the community; secondly, on its tools and plant (both of which have a rough financial equivalent in Group B, Chapter II.); and, thirdly, on personnel. Personnel, however, sets the "pitch" i.e., determines the efficiency of the use of capital, for any given policy, and the arbiters of policy, whoever they may turn out to be, have an interest in selecting the finest personnel available to operate it.
- c) The financial system recognises these facts by deriving all financial values from credit, which takes all these factors into account. As, however, the existing system of making prices includes all dispensations of purchasing-power to individuals during the processes of production (i.e., "costs"), in prices; and all "prices" are purchasing-power taken from individuals, it must surely be clear that credit-issue and price-making are the positive and negative aspects of the function which controls the economic life of the community, and so controls the community itself.
- d) The community does not control credit-issue or price-making, at present.

It is probable that some system of credit issue and price-making founded on a policy of which society, as a whole, approves, is an integral part of any immediately possible civilisation; and if this be so, it is of the highest importance to decide on that policy, and to see how it differs from the existing one, against which society is in rebellion.

It is above all things desirable to recognise that the problem is a practical one, and that nothing is to be gained by assuming that Capitalism in its present form has always been fundamentally bad. The capitalistic system is doomed because the world has ceased to have need of it in that form, not because it was the invention of the devil. That is not to say that there is not a good deal of original sin about, in the opposition to its modification!

To understand the trend of the present system from the standpoint of policy, in the light of the above analysis, we must notice that it results in keeping the majority of persons employed approximately eight hours per day either in producing, distributing, or safeguarding, what is admittedly a deficient supply of ultimate commodities, and this in spite of the advancement of science and its application to Production.

## Credit Power and Democracy

We see also that whatever the amount of these ultimate commodities produced, and however much cash the community earns, the aggregate prices of mere consumption goods can be made to equal the aggregate earnings in respect of the production of both capital goods and consumption goods, either by keeping the articles in short supply or making monopoly arrangements to set prices at a "suitable" level; but, in any case, prices of capital goods plus prices of consumption goods are in excess of available cash demands because of the credit factor in the prices; a relation which results in the control of plant and improved process passing from the producers, as fast as produced, into the hands of the creditmongers and the price-makers, rather than into the hands of the community to whom it belongs in the nature of things. This concentration of control being assisted by a short supply of ultimate products until competition is finally eliminated, those having control have every inducement to deliver the minimum quantity of goods at the highest obtainable prices, so long as these, in the aggregate, absorb the distributed purchasing power.

Now, the important point to observe is the effect of all this on the use made of the collective energy of society. It seems likely that, at the beginning of the Machine Age, the capitalistic system had the effect of concentrating effort on the expansion of real capital to an extent which no other arrangement could have brought about in so short a time, to the ultimate advantage of everyone. Not only so, but the competition which preceded the Trust Era kept production of ultimate products up, prices and profits down, and the consequent area of distribution, through the agency of wages, widespread. The evolution from the individual entrepreneur and private banker into the limited liability company, with its large body of shareholders, and the great Joint-Stock Branch Banking Systems (obviously nearing complete coordination) has widened the area of the distribution of purchasing-power through the agency of dividends, while, at the same time, the necessity for "direct" wage-earning labour has been diminished by the increased utilisation of mechanical power and machinery, which tends to contract the area of the distribution of wages.

It may be noticed, in passing, that had these processes been allowed to proceed unhindered (which was probably a practical impossibility), several things would have happened to clarify the situation. There would, firstly, have been such unemployment that the wage-system would have become unworkable long ago. It would have been recognised that the dividend is the logical successor to the wage, carrying with it privileges which the wage never had and never can have, whether it be rechristened pay, salary, or any other alias; because the nature of all these is a dole of purchasing-power revocable by authority, whereas a dividend is a payment, absolute and unconditional, of something due. The first is servitude, however disguised, the second is the primary step to economic emancipation. It would then have forced itself on the general attention that all purchasing-power comes out of credit, and that the economic life of the community is controlled by its distribution. (It may not be superfluous to point out that there is no more inevitable connection between dividends and "production for profit" than between "pay" and Socialism.)

With the Trust and the Joint-Stock Banking System came agreements restricting price-competition, and with that came the apotheosis of Trade Unionism, forced to meet the situation by methods identical in principle, leading in both cases direct to sabotage. We have already seen that if an essential article can be kept in short supply, its price can be made to suit the policy of the price-maker. Under the existing

## Credit Power and Democracy

arrangements, labour is such an article, and so is the collective thing we call "the standard of living." Because the credit of the community which, if distributed, would have resulted in universal dividends has been largely centralised in the hands of the Banks and industrial combines, all of them struggling for power, that part of the community which still gets its purchasing- power through the medium of wages and salaries has been faced with starvation, unless it "earned" them, machinery or no machinery. The result is common knowledge: a widespread conspiracy to "make work" for which I, for one, see no alternative under the circumstances. Similarly, the Trusts and Banks, obliged, as a condition of existence under the system, to reabsorb the majority of the credit distributed as wages, through the agency of prices, restricted the supply of ultimate commodities, not only by their own forms of sabotage, but by directing production more and more to capital goods and goods for export.

We are now perhaps in a position to see to where the present system has brought us. Real capital, the lever of Atlas, has become the preponderating factor in production, but is not lifting its load because the only conceivable point d'appui of capital is credit. (The public can no more control capital directly, than a passenger, or a committee of passengers, can instruct an engine-driver directly as to the running of his engine.) The community does not control credit, and the policy of its present controllers is to prevent the community from getting control by taking back in prices the maximum purchasing power, a condition which is assisted by restriction of the supply of ultimate commodities by export or otherwise.

The fundamental idea which it is necessary to grasp is that you cannot get existing and future credit-power into the hands of the community, unless the distribution of purchasing-power, both in respect of capital increases, as well as in respect of ultimate products, is only taken back from the community in the proportion that consumption bears, not only to these products, but to capital production as well, using capital in just as wide a sense as the credit-issuer uses it.

The result of this is that as a condition of such a state of affairs, prices of ultimate commodities would have to be fixed, not with regard to what they would fetch, but with regard to the above ratio, which would result in a price which would be a fraction of cost; the difference being made up to the entrepreneur by an issue based on the actual capital still remaining as a result of effort represented by total "cost,"

### CHAPTER V

#### **Breakdown imminent - The attack on ownership - A phantom enemy - Analysis of Nationalisation - A reversion to the Middle Ages - The Two Great Policies - The lesson of Russia - A financial problem of centralised credit.**

WHILE the fact that the working of the existing economic system is breaking down is plain to any but the wilfully blind, there is astonishing diversity of opinion as to the cause of the trouble, even amongst those who have made the subject their special study or, perhaps it would be fair to say, especially amongst such persons. But a considerable and articulate body of opinion has committed itself to the belief that the root of the trouble lies in the private "ownership" of the means of production, by which presumably is meant the plant, raw material, etc., and that in consequence the remedy is to be found in Nationalisation.

The prescription follows logically from the diagnosis, but unfortunately the diagnosis is defective or, rather, superficial. Before considering the prescription, therefore, it may be valuable to consider what can be conveyed by the term "ownership" in connection with such a concern as a boot factory, at the present time. Taking the simplest case of a one-man ownership, the owner might live in the factory, if he wanted to, or he might burn it down, if it was not insured, or otherwise destroy it, in all of which cases it would cease to be a boot factory; or he might appoint himself manager, or he might sell it, in which case he would cease to own it. The essential point is that, considered as a boot factory, it is not of any direct use to its owner after he has had half a dozen pairs of boots out of it each year. What, however, is of value is, firstly, the money-value (i.e., credit-value) of it, which is entirely based on his power to make prices for its product in excess of its costs, and, secondly, the pleasure which the control of it may give him.

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

But since the blessed word Nationalisation is said to be the only alternative to chaos, let us consider what meaning can be given to it, when we leave the plane of broad generalities so beloved of its advocates, and come down to the region where things are actually done a region in which generalities lose value and detail reigns supreme.

As its exponents would be the first to admit, the Nationalisation policy cannot be fairly judged by its first-fruits e.g., the Post Office telephone service, etc. To get to the millennium by this route, it is necessary to nationalise everything tangible either by expropriation or buying out at a valuation. Passing over the appalling problems raised by either course, let us imagine them to be surmounted and the object achieved, and the community to be back in the position existing in the twelfth century i.e., all

## Credit Power and Democracy

legal ownership to be vested in a central authority, now, however, to be called the nation, or the people, instead of the king. It is obvious that some human beings must be in the position of administrators of this trust so formed, and there is room for ingenuity and difference of opinion as to the method of selection to be applied to these administrators. But if anyone imagines that any method whatever will prevent these persons, once elected, from achieving supreme control of administration, then no doubt he will be able to explain why M. Lenin has not been prevented from introducing the most complete form of both military and industrial conscription that the world has ever known.

The vital question, however, is not one of administration; it is one of policy. There are only two great policies in the world to-day compulsion and inducement; and whatever the original policy of Russia under M. Lenin may have been, it has definitely become one of pure compulsion, since the first steps taken by the Soviet Republic were directed to the destruction of financial credit, which is the instrument, however perverted, of a policy of inducement. Now, compulsion simplifies a good many things; it undoubtedly simplifies economic problems. Having obtained control of the machinery of compulsion, the productive process resolves itself into deciding what is to be produced, ordering some persons to do the necessary work, and shooting or starving them if they do not. Similarly, economic distribution resolves itself into the decision by a central body as to what it is good for people to have, issuing it to them by means of a form, and seeing that they do not get anything else. We attained quite a high efficiency along these lines in England during the Great War, and, as a matter of personal opinion, I have no doubt that a Labour Government, elected on a policy of Nationalisation, would automatically find itself committed to such methods, just as a Capitalist Government uses them to conserve the partial centralisation it has already achieved.

But imagining for a moment that, under the test of circumstances, a Labour Administration of a Nationalised State would remember all the hard things it said about wage-slavery, and determined at all costs against compulsion, and for inducement, it would be faced with a curious and interesting financial problem. Let it be borne in mind that, as each and every industry would be, in one form or another, simply departments of one great undertaking, all semi-manufactures, plant, etc., would simply be credit transfers from one department to another. Presumably, everyone would receive pay, and there would be some sort of a costing system which would allocate this pay as a cost against the product. Now, the State being the only producer, intermediate products would have no external market in this country, with this interesting result that either all capital-production costs would be allocated against ultimate products, in which case prices of ultimate products would absorb at least the total earnings (pay) of the whole population, or alternatively only maintenance, depreciation, and obsolescence of intermediate products would be charged against ultimate products, in which case prices would be less than costs by the ratio that capital would bear to consumption, but the community would have no possible means of utilising its cash savings. In either case, the community would have no financial control over the capital it had helped to produce; it might, by some system of Soviets or otherwise, obtain control, of an erratic description, over personnel and administration; but, as we have said before, the control of policy, which is the vital issue, is not resident either in personnel or administration; it is resident in finance i.e., credit.

## Credit Power and Democracy

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

Centralised financial credit is a technical possibility, but centralised real credit assumes that the desires and aspirations of humanity can be standardised, and ought to be standardised. Since financial credit derives its power from its nexus with real credit (a correct estimate or belief of the individual that something desired will be delivered), centralised financial credit-control will break up this civilisation, since no man, or body of men, however elected, can represent the detailed desires of any other man, or body of men.

## Credit Power and Democracy

### CHAPTER VI

#### **The two aspects of credit - Both based on psychology - The administrative basis and the machine gun - The nemesis of Fabianism.**

ONE aspect of the problem of credit, the side which has been exploited by the financier, is psychological, but its base is realistic. In order to induce, by means of money, a miner to hew more coal than he wants for his own use, you must make him believe that the money which he will get for so doing is a means, and a better means than any other available, to get the things he personally wants in addition to coal. While this belief is of the essence of the arrangement, it is only stable as it approximates to knowledge that he will get what he wants. Now, knowledge rests on facts, otherwise it is delusion, and unless the money he earns (Joes get him what he wants, he will cease to work for a given sum of money. If what he wants is not there, then money will not get it for him, unless money controls production.

But there is another form of inducement which can be invoked, and that is fear. If you can imbue a man with the belief that it is more unpleasant not to do a thing than to do it, then he will do it, to the extent necessary to balance the motives; consequently, if you have in existence a strong centralised organisation, or an absolute monarchy, which is much the same thing, such an organisation or monarch is a good, sound reason why certain things should be done (because unpleasant things happen to those who defy such institutions), and they are, therefore, bases of credit. But the important thing to notice is that you must have the basis of credit either in its positive or negative aspect of inducement or compulsion, irrespective of what forms the inducement and compulsion take; and that inducement derives from within, from the individual, while compulsion is from without, from the "machine/" The whole problem of high policy reduces to a consideration of this proposition: What sort of a reason are we endeavouring to set up to convince men that certain things must be done first in order that more things may be done subsequently?

Now, it has been the habit to regard money as being the root of all evil (what time the Churches and philanthropic institutions issue ever more insistent appeals for subscriptions of it), just as decent persons in America have explained that politics is too dirty a game for them to take a part in, and, in consequence, have let the Trusts run it and them. Money is a mechanism, and can be used or misused like any other mechanism, and if the population of this or any other country is willing to allow the mechanism of money to be controlled by the few, then, so long as inducement by money is the basis of credit, so long will the few control the many.

M. Lenin saw that clearly; and he set to work to destroy money as a reason for doing things, by taking away the realistic basis of credit he made so much money that it would not buy anything. But he went farther; he made it impossible, by nationalising industry, so to employ this "money" that its holders had any control over production. The producer ceased to regard money as a good exchange for his production; barter proved, as it was bound to prove, impracticable, and production fell to nearly zero. A new basis of credit was required, and M. Trotsky obligingly stepped in with an excellent machine-gun corps. Observe what happened. As soon as the credit-basis shifted from the bank-note to the machine-

## Credit Power and Democracy

gun, the control of policy shifted from finance to administration, and not before. This is the major lesson of the Russian Revolution for those whose brains are not stupefied by catch phrases that control by administration means absolute, not merely functional, militarisation, and that under it no freedom in any Western sense can exist. The personnel of such an administration follows the law which governs the selection of personnel in all power organisations (with the operation of which every country became sufficiently familiar during the Great War), and the society which groans under it becomes riddled with intrigue, and breaks up from internal dissension.

The application of these considerations to the industrial situation in Great Britain and elsewhere must be obvious. At this time, the Labour Movement, as a result of generations of Fabian and similar propaganda superimposed on economic injustice, is in effect demanding the replacement of finance by administration, under the delusion that Labour would supply the personnel of administration. Because inducement is inherently stronger than compulsion, or, as the older psychology would have it, because love is stronger than fear, such an arrangement is fundamentally unstable, but it may be necessary for us to undergo the experience in order to be disillusioned. However that may be, the ultimate issue seems clear that either after a period of painful dissolution all co-operative industry will cease, and we shall revert to a period of isolated endeavour, or else the community will recognise that the mechanism of exchange is the life-blood of civilisation, and instead of foolishly endeavouring to abolish it will see that its circulation is controlled in the interests of the body politic.

Of course, to force the metaphor a little, there may be intermediate complications; the maldistribution of this life-blood may cause another outbreak of the fever of war sufficient to kill the patient outright, and there are not wanting signs of this eventuality.

Short of this, the only visible agency which seems to have the fundamental capacity to ensure a decision one way or another is that of organised Labour, and organised Labour at this time shows susceptibility to the Border gibe of being "strong i' th' arm and weak i' th' head/"

## Credit Power and Democracy

### CHAPTER VII

#### The Capital Levy - What it means - Who would pay it - The immunity of the price-maker.

ANOTHER of the cliches to which the official Labour organisations have committed themselves is that which goes by the name of the Capital Levy, in its various forms. It is so superficially familiar to everyone interested in these matters that no extended description of it is necessary; with variations it may be described as a graduated and ostensibly non-recurring tax on the money-value of individual property, real and personal, such value being estimated, not by its earning power, but on some basis such as market price or expert estimation.

At first sight such a levy is an attractive expedient to a party concerned with the flagrant disparity in worldly circumstances to which "Capitalism" has at the moment brought us. If we can believe that there is a fixed amount of wealth in the world, and we see, as we do, that some have the good things of life while many have hardly the necessaries, it would appear an easy path to greater "justice" to take some of the "wealth" off the fortunate ones, even though you do not directly give it to the remainder. Let us examine the project more closely, therefore.

The law recognises two main classes of capital: "real" i.e., land, houses, etc.; and "personal" i.e., stocks and shares, cash, etc., which latter are ultimately claims to some sort of "real" property. That is to say, ultimately all property of any kind or description is a claim on realty. Now, imagine all money values above, say, 5,000 held by individuals to be subjected to a capital levy. What actually happens? The levy, remember, is on individuals by the "State." The State has no concrete use for realty; it does not, broadly speaking, administer productive undertakings; consequently what it requires is a transfer of credit which it can apply, say, to the reduction of the National Debt, which in itself is an agency for distributing purchasing-power.

Now, however steeply you graduate a tax it must leave some men "richer" than others. Remembering this, consider the course of events when the tax is collected. The owner of land has to sell to "raise" the money for the tax. Who buys that land? Similarly, the owner of stocks and money parts with these. Who gets them? There are two answers.

If the titles to the land or shares are thrown on the market together there will be a slump in "values" which will affect not only those who are taxed but those who are not taxed, in so far as they have any possessions other than money. At first sight this seems a desirable result, but on further consideration it will be seen that as the National Debt is a money-debt, not a "realty" debt, such a slump in values increases the real weight of the debt, because it requires a larger transfer of property at the lower price to liquidate a unit quantity of it. Since, as we have agreed, this transfer of actual property cannot be to the State in propria persona, it must be from persons with less money to persons with more money; and the greater the fall in values, the greater would be this transfer of real wealth from the less rich to the more rich. That is one possible answer.

## Credit Power and Democracy

But there is a modification of this process possible. In order to avoid the fall in values that the liquidation of large blocks of securities would entail, the banks would be besieged for overdrafts with which to meet the calls of the levy. Which class of applicants would receive preference in this scramble for credit-issue? Undoubtedly those whose prospect of repayment seemed to rest on the surest foundation; and, unless the previous arguments have failed of their purpose, it will be plain that whatever costs may be incurred by a producer who controls a market can be recouped by him in prices from the consumer. Consequently, the banks would extend credit most readily to those whose power of price-making gave assurance of their ability to collect the levy, in so far as it affected them, from the public, together with the banks' interest on the loan. Such persons would not only not have to part with any property, but would probably be found in a position of commanding advantage from which to acquire the property thrown on the market by their less fortunate neighbours a result which, though differing slightly in method, results in the same conclusion as in the previous case: that instead of such a levy being a transfer from the rich to the poor, it becomes a transfer from the consumer to the price maker and the credit issuer.

This is another way of stating the theorem on which stress has previously been laid in these pages. Under the existing economic arrangements, industry cannot be carried on unless the price of an article includes all the costs i.e., dispensations of purchasing-power which have been incurred during its production. If a cost is not included in the price, then the pricemaker becomes poorer, and eventually goes out of business. You cannot tax a capitalist-producer effectively, because his existence as a producer depends on his ability to pass on any expense incurred to the consumer. And it will be admitted by any unprejudiced observer that no excessive reluctance to avail himself of this privilege is noticeable in the behaviour of the average entrepreneur.

It is, however, possible to attack the Capital Levy on more general grounds also, if it be realised that the situation with which we are faced is only accentuated by and not fundamentally due to the destruction of war. If the economic system under which we are working is a sound system, then it is a flagrant "injustice" that such persons as do well out of it should be penalised; and if it is unsound, as it is, then the Labour Party, which clearly regards itself as the sole political concessionaire of justice, should be too high-minded to believe that an unjust system is improved by working it unjustly.

The capitalist system is tottering to its fall, but, like the Bolshevik Government, which (according to official communiques) began to totter at its birth, and has continued to totter until it has infected half the world with its congenital instability, it may carry on for a long while, if its opponents obligingly demonstrate at short intervals their inability to supplant it by something better.

## Credit Power and Democracy

### CHAPTER VIII

#### **National Guilds - Their genesis - Their corruption by Fabian thought - The use and abuse of Committees - The prerogatives of policy - The diminishing importance of " Labour " - Its lost opportunity - The site of the final struggle.**

SINCE neither Nationalisation nor the Capital Levy offers any sound basis on which to construct a policy for the betterment of society, it may be well to see what may be said of proposals which have attracted very considerable attention from some of the best brains of the Labour Movement those involved in what are commonly known as National Guilds.

At the outset it is necessary to make the sharpest possible distinction between the original philosophical idea which was the genesis of the Guild Movement, and which was explored by its progenitors of The New Age, and the superstructure built from political and Trade Union mechanism, which has been erected upon it. The vital, and probably immortal, germ of the Guild idea is its recognition of function in society as well as in the individual; and it is the writer's opinion, at any rate, that no sound society can exist which ignores this conception. But when we come to examine the proposals for incarnating this idea in the structure of the working world, it seems impossible to escape the conclusion that it has suffered severely at the hands of some of its converts, and that the path of development these proposals have pursued is a tangent to the firm world in which we live; which is globular. In consequence, they have left the solid ground of objective fact and have lost practical efficacy.

For instance, while a comprehensive Trade Union or Guild is clearly indicated as a possible or even probable evolution from the Trust, it is far more likely, and even desirable, that it will be based on the cartel system than on, for instance, the Triple Alliance of Miners, Railwaymen, and Transport Workers.

Once again let it be repeated, the primary objective of the industrial system is goods, not employment. Once let it be arranged that the distribution of goods is not the "reward" of employment, and there is some chance that the scientific intellects of the industrial world will achieve the end to which all their efforts are bent the replacement of human labour by energy drawn directly from the source of all terrestrial energy, the sun an end thwarted not only by the insane profit-hunting of the super-productionist, but equally by the sabotage and indiscipline of the syndicalist.

The idea that the direction of the technical processes of a modern co-operative productive organisation can be carried on by a show of hands at a committee meeting of producers, or, alternatively, that appointments to the productive hierarchy should be made in this way, is pure delusion.

Committees have their uses, and advisory committees in industry will become more and more general, and are of inestimable value to executive officials, but it is of the very essence of the best modern organisation that responsibility and authority should go together and be definitely attached to some individual holding a specified office with specified duties for the execution of which, and for no other reason, he holds that office; the essence of which duty in most cases consists of making quick decisions on matters of fact. Anyone with experience of executive (not advisory) committees knows quite well

## Credit Power and Democracy

that the decisions obtained from such a source, besides being relatively slow, are really the decisions of one man, generally possessed of political instinct in excess, and quite happy to share possible censure with half a dozen accessories before the fact; and it is far better to accept this as a fact, and to recognise it, than to pretend that there is something inherently bad about human nature which requires continual "policing."

Similarly, the appointment of individuals to executive positions, and their removal therefrom, is essentially a necessary prerogative of the originators of policy, not the administrators of process. The control of policy, as we have already seen, resides quite definitely with the controllers of credit, whether that credit is based on finance or a machine-gun; credit never resides in the function of labour, either "by hand or brain" though it may reside in the control of labour. That is to say, to the extent that the withdrawal or employment of labour can stimulate either fear or desire, to that extent the control of labour is a basis of credit; and as the machine progressively replaces the man in its importance as a purveyor of goods and services, so will the demand of the community on the one hand, or the control of the machine on the other, become progressively more important as bases of credit and origins of policy.

A consideration of the foregoing arguments will no doubt be sufficient to indicate the source of the error into which much of the Guild Socialist movement has fallen: it has omitted entirely, in its proposals for the realisation of a sound ideal, to allow for the most important factor in modern civilisation the unearned increment of association and has in consequence left its benefits to be the sport of the financier, while agitating for a revolution which is stamped in advance with all the characteristics of a medieval tyranny.

During the years 1914-1919 the British Labour Party as a whole had an opportunity, such as rarely occurs in history, so to change the trend of progress, both economic and political, that in a few years civilisation might have emerged from the nightmare of war into the placid sunlight of a liberated, creative, and revived world. The great mass of honest, capable men and women, over the backs of whom its leaders had climbed to power, were inspired by a great enthusiasm towards a better age for all; and the immense urgency of the demand for output, which the sabotage of war had created, gave to organised Labour a bargaining power which only a similar or greater war, involving, with its appalling miseries, fresh fields of production, can restore. But the opportunity was missed missed by the technical misdirection of the Trade Union officials and their Parliamentary spokesmen, who, while voicing the aspirations of their constituents, were perhaps more concerned with politics as a career than with definite constructive action towards the practical improvement of society as a whole. As distinct from the pure Utopianist, determined to see nothing good in material changes unpreceded by a "change of heart," the "sane Labour leader" naturally listened to any plan designed to consolidate and buttress official power, hence the vogue of Socialist-Administrative schemes, now happily and rapidly waning. But the error went deeper. The Syndicalist idea of control by the workers naturally led to strikes for higher wages, rather than for lower prices. The revolt of the general public, while misdirected, was logical and inevitable; and the Labour Movement, as distinct from the aspirations of the great mass of individuals it misrepresents, is partly manoeuvred by its opponents and partly committed by the ineptitude of its "leaders" to the representation of an interest as purely sectional, and hardly less truly antisocial, than that involved in an organisation to keep up the price of, say, bread or houses.

## Credit Power and Democracy

If there is one thing more certain in this respect than any other it is that men who know how to do things will not submit to be ruled in the details of the doing of them by men who do not know how, and, strange as it may seem at first sight, the control of society by the "producers" means just exactly that amongst other things. For instance, it is highly probable at this time that the production of armaments, in the broad sense of the word, is a determining factor in world politics; and that is so because millions of men and women get their living, as the phrase goes, by working in armament factories. That is to say, the producer controls the consumer. If those millions of human beings were not dependent for the means of consumption on this particular form of production, it is highly probable that the armament business would languish, and numbers of people who understand what it is the world needs much more than armaments would have an opportunity of suggesting how to get it as well as a voice in determining a suitable personnel to that end.

Now, in spite of the apparent lack of enthusiasm with which any attempt to examine the subject of credit and price control is apt to be received in the immediate present, there is no doubt whatever that its paramount importance will, within a very short time, be recognised, although perhaps not so quickly by British Labour as elsewhere. The real struggle is going to take place, not as to the necessity of these controls, but as to whether they shall be in the hands of the producer or the consumer. British artisans have become so obsessed with a sense of the power of organised Labour a power which, always exaggerated, is waning rapidly by misuse that they are in real danger of playing straight into the hands of the enemy by exactly the same methods which have led the Russian workman out from the partial, because inefficient, tyranny of Czarist Russia into the scientific conscription of Labour now incorporated into the Workers' Republic, which is credibly reported to have converted to Bolshevism Mr. Henry Ford in America and numbers of our most distinguished industrialists in this country.

Unselfish aspirations, good intentions, beautiful phrases none of these by themselves will affect the issue by so much as one hair's breadth. If the public of this or any other country is really desirous of once and for ever freeing itself from the power of the economic machine, and using the immense heritage which science and industry have placed at its disposal, it has to throw up and place in positions of executive authority men who are technicians in so broad a sense that they understand that the very essence of perfect technology is to devise mechanism to meet the requirements, the policy of those who appointed them. There are thousands of such men in every country disgusted, in their varying degree, with the policy to which their abilities have been prostituted; but so long as the super-producer appoints and supports the man who delivers the goods i.e., profits while the public elects and supports the man who only talks, whether in Parliament or in the Trade Union, just so long will the tail of production wag the consuming dog. There is no hope whatever in the hustings; but a modified credit-system could transform the world in five years.

## Credit Power and Democracy

### CHAPTER IX

#### Summary of analysis of the Machine Age - Trust - Capitalism essentially anti-public And anti-democratic - The nature of the coming State.

THE conclusions to be derived from a consideration of the conditions observed to exist in the modern economic and industrial systems may therefore be tabulated somewhat after this fashion:

- (1) The outstanding feature of the Machine Age is the increment of production obtainable through co-operation and the employment of real capital.
- (2) The link which enables numbers of individuals to co-operate is Credit based on Capital that is to say, a belief that, by making, with the aid of tools, certain articles which the maker does not himself want, he will obtain more easily and more exactly his desires in respect of goods and services which he does want, than by applying himself to their production directly. At the present time the real basis of credit is broader than ever before, but the psychological basis is failing, owing to the misuse of capital.
- (3) The material of which this link is fashioned we call money, which, whatever form it may take, derives its value solely from the belief, the "credit" that it is an effective agent for the realisation of the proposition contained in (2).
- (4) The mobilisation and issue of this money, for productive purposes, rests primarily with the banks, which are not concerned directly with the maintenance of this co-operative relation, but rather with the rapidity with which the credit units so mobilised and issued are restored to the financial system. This is not the fault of the banks, but of the public and of the system.
- (5) From (4) it follows that, where money is the inducement, the control of the policy of production that is to say, the decision both as to what articles shall be produced and their quantity and quality rests, not with the administration of productive enterprises, but as to its initiation with the banks and others who finance their production, and as to its continuance with the price-makers whose motive is in the very nature of things anti-public, since it aims at depriving, with the maximum rapidity, the individuals who comprise the public of the independence conferred upon them by the possession of purchasing-power.
- (6) The public, as individuals, can only acquire control of the policy of the economic and industrial system by acquiring control of credit-issue and price-making. The organ of credit-issue is the bank, and the meaning of price-making is credit-withdrawal.

Now, there are probably very few serious, reasonably unbiased, and qualified students of these questions who would, after full consideration, be prepared to deny any of the foregoing propositions, but many such find it difficult to understand and agree with the contention advanced in the foregoing pages and in the previous volume ("Economic Democracy/" Chapter IX. et seq.) that an essential postulate of a better state of things i.e., public control of economic policy through public control of credit is that ultimate-commodity prices should be less than costs; that an article used by an individual should be sold for less than the money it costs to produce. To anyone in this difficulty the following question may be helpful: // credit controls the policy of production, how can it be possible for the public

## Credit Power and Democracy

to control credit and policy if all the credit necessary to induce production is restored to the banks from the public through the automatic agency of uncontrolled Prices?

It is, of course, possible to control the initiation of any specified form of production by controlling credit-issue only, but, once CREDIT-POWER AND DEMOCRACY started, there is nothing whatever to prevent an obsolete article from being produced and forced, by advertisement and monopoly, on a misguided public, long after a better, cheaper, and generally superior article is available, so long as the credit necessary to induce production in common terms, the cost of production is taken from the public automatically through the agency of prices. If, however, the entrepreneur, while subject to all the desirable features of free competition between establishments, involved by effective cost-keeping, is obliged, in order to compete at all, to come to some publicly controlled credit-bank at short intervals for the means to make up the difference between a price regulated (not fixed) by a fractional multiplier applied to all costs of production of articles sold to the individuals composing the public (as explained in Chapter X., "Economic Democracy"), then, and it seems probable only then, do we acquire a valid, flexible, active control, not only of the initiation, but of the development and modification of production, by the public acting in their interest as individuals.

It will be understood that these considerations do not affect the validity or otherwise of the basis on which it is contended that this fractional multiplier should rest that has already been dealt with at some length; it is merely intended to show here that, without some such arrangement which places the co-operative producer in the power of the consumer, instead of the exactly opposite condition which now obtains, effective democracy is pure moonshine, and all progress is stultified. Any practical business man will know of cases probably of dozens of cases where processes and discoveries of immense value have been wilfully stifled because it did not suit producers to modify their product. There are ugly rumours about at this moment of certain enormously valuable petrol substitutes cornered and quietly shelved by the oil interests by no means the worst of the Trusts which enslave us. From every quarter come more or less authenticated stories of calculated waste and sabotage Eastern-returned travellers gossiping of mountains of rotting blankets lining the Suez Canal, Australians of the millions of bushels of rat-eaten and mouldering wheat cumbering their stores.

We do not acquire, by these suggested methods, control by the public, as such, of the processes of production the "how" it shall be done. That is not the business of the public, as such, but of experts. But by controlling both credit-issue and price-making the public acquires control of policy with all its attributes the effective appointment and removal of personnel, amongst others. The essential nature of a satisfactory modern co-operative State may be broadly expressed as consisting of a functionally aristocratic hierarchy of producers accredited by, and serving, a democracy of consumers. The business of producers is to produce; to take orders, not to give them; and the business of the public, as consumers, is not only to give orders, but to see that they are obeyed as to results, and to remove unsuitable or wilfully recalcitrant persons from the aristocracy of production to the democracy of consumption.

No peace will ever settle on the distracted earth until this matter has been fought to a finish, and it rests with the intelligence of those who are from time to time in a position to guide popular movements,

## Credit Power and Democracy

whether a mere remnant of civilisation will achieve the Golden Age awaiting the settlement, or whether a decisive verdict is close at hand.

## Credit Power and Democracy

### CHAPTER X

**The production of Real Credit - Delusive accounting - The limits of Financial Credit-issue - Present economic system based on currency - Coming system will be based on Real Credit - The fraudulent standard - Delivery is part of credit-basis - The fallacy of "National Poverty" - Increased effective demand necessary.**

THERE is another and somewhat more specious objection raised to the statement that the just price of an article for individual consumption is less than the cost price by the ratio of consumption-credit to production-credit; and that is a statement that production only very slightly exceeds consumption.

It will be realised that this is a very specious statement, if we accept it for the moment as being true, and consider exactly what is implied. When a Blue book, or other mine of statistical and generally perverted information, asserts that the imports and exports of a country are thus and such, it intends to convey the impression that the aggregate price-values as shown on bills of lading, reach the figures given. That is to say, the "balance of trade" of any country, either as reflected in its exchange or by any other commercial test, is simply a matter of sales-management you have only to make grand-pianos a necessary of life, corner grand-pianos, restrict the sale, and, presto! Half a dozen grand-pianos will balance the import of all the wheat and wool that Australia and the Argentine can send us.

Exactly the same thing is true of values produced and consumed. The community, while producing, as one of its functions, both capital goods and ultimate products or consumption goods, only consumes, as a collection of individuals, the latter. But individuals in the aggregate must pay both for capital production and ultimate products, whether consumed or not, under the present financial system, for the very simple reason that they are paid for, and there is no one else to pay for them. Also, as we know quite well that practically every business firm "turns over" the money employed in its business at least once, and generally several times a year, and that each complete aggregate "turn-over" means, broadly, that all costs incurred have been recovered from the public, we either have to believe that not only are the whole of the ultimate products covered by the period of turnover, consumed in that time, but also the whole of the machinery, buildings, small tools, etc., which is plainly ridiculous. It is, of course, obvious, after a little consideration, that what happens is that the consumption-values i.e., prices retrieved from the consumer contain all costs i.e., credit issued to the consumer in the form of wages and salaries; and therefore must financially approximate to the money value of production.

Now, because "production" is, at present, the chief agency through which is circulated the purchasing-power necessary for distribution, there is an immensely strong incentive to sabotage the waste of work on the side both of the Capitalist and of Labour and for this reason the consumption of the world is most unquestionably far higher than it ought to be. But even taking this into consideration, it must be obvious that the credit-value of production the amount by which the work of a community during a given period of time increases the correct estimate of the capacity of that community, with its plant, culture, and labour, to deliver goods and services is enormously in advance of the actual consumption. Every single

## Credit Power and Democracy

telephone instrument installed, every improvement in transport, every new process for producing nitric fertilisers, only to indicate the principle by a few trivial examples, clearly increases this real credit at compound interest.

Financial credit, even now, is issued roughly against all forms of real credit. The only sane limit to the issue of credit for use as purchasing-power is the limit imposed by ability to deliver the goods for which it forms an effective demand, providing that the community agrees to their manufacture.

Consequently, if as the result of six months' work the capacity to deliver goods and services has been increased per unit of time, it would appear to be simply common sense, with the foregoing proviso, to distribute the means which make it possible to draw on this potential production, without forced export.

When the Capitalist system takes back from the public the whole of the costs incurred in production, it takes back the whole of the financial credit, and the purchasing-power covering the period of activity in respect of which that credit was distributed, whereas the real credit of that period includes the overwhelmingly important unearned increment of association during that period. To take the most elementary of examples: if we consider a factory, engaged only on one article, during the second six months of its first year of existence, it will probably increase its output very considerably beyond that possible in the first six months.

If, however, of the financial credit, or purchasing - power, which we distribute during the first six months we only take back in prices that portion represented by the ratio of actual consumption to potential production, we can, if we so desire, produce up to the limit of our capacity during the second six months in the assurance that an effective demand awaits us.

It is vitally necessary to be clear as to the difference between what actually takes place under an economic system based, essentially, on currency, and the position which would result from the modification to the financial system which we are discussing; which would be based, essentially, on the economic capacity of society to achieve its desires. Where metallic gold is the ultimate basis of value, and therefore the ultimate currency, and all credit-issues are made on the assumed necessity of some theoretical or empirical relationship between the amount of gold in the banks and the total credit-issues, and we assume that there is an average period over which credits operate, and that credits are the means of financing production, then total credits, multiplied by average time, are a measure of the rate of production. It has been pointed out by Mr. Arthur Kitson, and others, that since this credit structure is based on gold, which bears no conceivable relation in quantity to any human requirement for goods and services, gold production exercises a totally disproportionate effect on the mechanism of prices and credit. But the difficulty goes much deeper than that. Not only does the gold basis of the present financial system shift, but the ratio of the credits erected on it also shifts sometimes violently. This is, of course, due to the vital fact that the public even under a gold basis of credit can utterly destroy the whole credit structure by demanding gold in payment of their cheques on the banks, because the basis of present cash credits is that they are convertible into currency on demand, and there is, of course, not a tithe of the gold necessary to cash them. Engineered, no of doubt, to a large extent by the enemies this country, that is what nearly happened in August, 1914 (and would always

## Credit Power and Democracy

happen under similar conditions), with the result that in order to defeat the manoeuvre, the financial system was shifted from a gold to a paper credit basis in a few weeks' time, never, let us hope, to return to so fertile a source of misery.

But although the gold basis has gone, the simulacrum of it still lingers in the shape of a credit system based on an unregulated paper currency, with the result that a sort of Druids' dance of credit-issue, rising prices, currency stringency, currency issue, more credit based on more currency, goes on, the only possible redeeming feature of which is to take the whole cycle right away from the fetish of gold. Apart from this one point, everyone suffers except those whose business it is, in the most literal sense of the words, to make money. So much for the conditions brought about by a financial system which attempts to base its credits on the currency, and yet allows its prices to rise with both. The alternative shifts the credit basis still farther.

We have already seen that the only possible basis of real credit is a belief, amounting to knowledge, in the correctness of the credit-estimate of a society, with all its resources, to deliver goods and services at a certain rate. If we make this basis our financial basis, then the credit-structure erected on it can only be destroyed by social suicide by the refusal of the community to function. Now, one of the components of the capacity of a society to deliver goods and services is the existence of an effective demand for those goods and services. It is not the very slightest use, under existing conditions, that there are thousands of most excellent houses vacant in this country, when the cost of living in them totally exceeds the effective financial demand of the individuals who would like to live in them.. The houses are there, and the people are there, but the delivery does not take place. The business of a modern and effective financial system is to issue credit to the consumer, up to the limit of the productive capacity of the producer, so that either the consumers' real demand is satiated, or the producers' capacity is exhausted, whichever happens first. This can obviously be done by making issues of purchasing-power to cover the whole estimated productive capacity, and taking it back to the extent that this capacity is diminished from any cause whatever, a state of affairs which rapidly results in making everyone "rich" in the current sense of the term; which, it should be clearly borne in mind, does not at all mean that an individual's real consumption is large very often quite the contrary but that the individual in question has the mechanism at hand by which to obtain what he does want.

It is, of course, generally argued that there is not enough wealth to go round, and all sorts of absurd and misleading statistics have been evolved to prove that if all the accumulated wealth of the nation were evenly divided up, the average wealth per head would only amount to a very small sum, say 50. The right understanding of exactly where this fallacy arises is probably one of the shortest cuts to an understanding of the whole position, which involves a recognition of the difference between claims on capital, and administrative ownership of capital.

Financial wealth can only be placed on a solid basis by selling something to the public it is, for instance, no use owning a factory only suitable for the manufacture of high-explosive shells if the public taste for high-explosive shells has completely departed.

## Credit Power and Democracy

But farther than that, even if the public wants nothing but high-explosive shells in the largest quantities (which, from the behaviour of its "representatives" seems highly probable), it would be necessary that an effective demand that is to say, a demand backed by "money" should be forthcoming from the public. Now, the value of our hypothetical shell factory would vary from zero when there is no effective demand, to infinity, when there is no demand for anything else, and no other means of supply. That is to say, to drop the metaphor, the capital value of the plant of civilisation is as much dependent for its value on the existence of an effective demand for its product as it is on its capacity to meet that demand. If this is grasped, it will be clear that the distribution of the credit-capital, the power to draw on the resources of real capital (the leverage of civilisation on the work of society) increases the value of capital by the ratio which the new output bears to the old output, a proposition which clearly has nothing to do with the administration of the plant itself. The only way, therefore, to get that increased production of the things which individuals really want, which as here defined everyone may agree is desirable, is to get increased effective demand, which, as we have seen, we do not get under the present financial and price system by any general increase in manufacturing.

## Credit Power and Democracy

### CHAPTER XI

**Fitness the qualification for executive authority - The producers not the owners of the product - Solar energy the great producer - The method of policy control - The Producers' Bank - Its operation - The consumer-interest in it - The community-component of credit - How it would operate in the coal industry - The " Idle Rich."**

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

The absolutely fundamental reason for the existence of modern co-operative collective production is the belief of individuals that their interest is best so served. When or if that belief fails, as it is failing now, either it must be restored or collective production will fail, as it failed in Russia. Now, there is no reasonable ground whatever for suggesting that modern productive methods are not incomparably more efficient than individualistic hand production. It is not meant to say by this that the results of the modern industrial system are at present more satisfactory than those possible under medievalism, but that they could be. The essential factor which places the matter beyond doubt is the introduction of natural, solar energy into the work of the world, through the agency of coal, water-power, internal combustion engines, and other agencies of energy-conversion.

It is, therefore, not the operation of the plant but the purposes for which it is operated which are chiefly at fault, and it is over these purposes, the policy of production, that we are chiefly concerned to acquire control. Imagine a bank formed by the employees of one of the great producing industries, by the simple process of hiring a building and engaging a trained staff, and that all the wages and salaries of the operating side of this industry were paid through this bank an operation of sufficient magnitude to place an ordinary banking business on a firm foundation at once. Such a bank, backed by the economic power of a Trade Union on which it might rely, might claim with success that, as representing one of the factors of production, and consequently one of the factors in the credit attaching to production, it should issue a considerable and agreed proportion of the flow of purchasing-power which forms the vehicle of that credit. This would take two forms the provision of short-term loans for current business, and of irredeemable loans for capital expansion. Now, it should be clear from what has been said that such a

## Credit Power and Democracy

bank would control policy in the proportion that its financing operations control the productive organisations obliged to come to it for money.

Imagine each client of this bank to have one share and one vote at a shareholders' meeting, the object of such meetings being to afford an opportunity to discuss the action taken by the bank's officials in their use of the bank's financing powers, not to discuss the bank's own financial success, for such a bank as is suggested should pay no dividend. It should be observed, and it is vital to a grasp of the principle involved, that this bank is solely concerned, like all other finance, with economic policy, not with the administration of economic process. Consider what happens in the relations between these financing banks and the productive organisations or companies which they will admittedly control. The management of a producing company, with the aid of its expert technical knowledge, will initiate a programme of production, and will submit this programme with estimates of its cost to the banks. The banks are not concerned with any questions of either practicability, method of achievement, or any other questions dependent on technical knowledge they are simply concerned to give a quick answer to a plain question: "Will you pledge the community to pay so much for so many articles, delivered at such a rate of delivery, commencing on so-and-so date?" If the banks say yes, they pledge the credit of the community to that extent exactly as they do, uncontrolled, at present, because each issue of credit dilutes the purchasing-power of every existing unit of purchasing-power, per se, a dilution which is only cancelled by the actual cancellation of that purchasing-power. If cancellation takes place by the recovery of this credit from the public through the agency of prices, then the public interest is to keep prices low, while, under existing conditions, the producers' interest is to keep them high. Now, since our imaginary bank is founded in the first place on a Trade Union, which is a union of producers, it is clearly vital to know whether its shareholders will support a consumers' policy or what seems superficially a producers' policy.

Let us abandon at once any sentimental ideas which are based on "a change of heart." What we want to know is, "How will a body of men whose fundamental reason for association is goods, not work, act under certain specified conditions, which we want to arrange in the general interest?"

Consider two alternative policies to be before, say, a miners' bank. One raises the price of coal while raising the remuneration of the miners, the other lowers the price of coal. The miners are producers of coal, but they are consumers of forty-nine other articles into which the cost of coal enters, so that while the miners would receive more for their product, they would pay more for all other products. The question we have to answer is, "On which side does their advantage lie?" and the solution is concerned with the dynamic nature of industry the constant movement of all the factors in it.

Remembering that all money, whether for wages or salaries, paid to induce people to produce is an advance of financial credit in respect of future production, we can see that if this advance had no effect on present prices the miners would benefit at the expense of the public. But since, under existing conditions, this additional purchasing-power released against the existing stock of goods raises their price at once (just as we know that building a new railway bridge will raise the price of bacon at the nearest village shop), the advantage is very temporary, and is absolutely reversed in the case of the individual who has any stock of money.

## Credit Power and Democracy

But infinitely more important is the real credit aspect which is also essentially dynamic. When a miner raises coal, which is a vehicle of solar energy, he increases the real capital of the community, its increased capacity to deliver goods and services, out of all proportion to the "cost" of raising it. Consequently, as a consumer, he should receive goods at some future date much cheaper as a result of raising this coal i.e., in order to get value for his money the price of the articles he buys with it must be diminished by the credit-value of the work he does. Anyone familiar with the mathematical conception of an acceleration will grasp the point without difficulty.

When coal is raised in the community, the credit of the community is increased, not by the cost of raising the coal i.e., the money value of the work done but by the increased capacity of the community to deliver goods and services of the desired variety to individuals composing the community; and this credit-value is dependent on the use made of the coal when it is raised, and may be out of all proportion to the cost of raising it. The chief component in this credit-value is supplied by the community itself. There is no useful purpose served by raising coal in the middle of the Sahara unless you can either get it to the community or popularise the Sahara as a manufacturing or social centre. Therefore, remembering that the cost in wages and salaries is simply a financial credit-issue, no matter where it comes from i.e., just as the banker advances credit to the employer, so does the employer advance credit against future production to the employee it is obvious that as a major part of the real credit involved in the operation is dependent on the use made of the coal by the community, it is fundamentally impossible for the cost, which is incurred prior to use, to be the equivalent of this credit, i.e., no private employer could ever pay such wages, and recoup them in prices from the public, as would represent an issue of purchasing-power representing the credit created by the proper use of the coal. In any such transaction, for it to be effective as a distributing agency, there must be an issue of purchasing-power from some organ representing the creation of credit by the mere presence of the community i.e., the total purchasing-power should exceed the cost to the extent that the total net capacity of society to achieve its desires is enhanced by the operation in question. Overdrafts and similar transactions by banks represent, to a limited degree, such an issue, and without them production is impossible. This is the same thing as to say that price to an ultimate consumer should be that proportion of cost which is represented by the ratio of credit-destruction to credit-production, and as the credit-production is a function of the community, it is quite clear that the credit production and destruction must be generalised you cannot say that a ton of coal raised will represent so much credit-consumption when it is burnt, because some obscure professor may devise a method of using coal which at any moment may double its usefulness. The vital and somewhat unfamiliar element which it is necessary to bear steadily in mind in the examination of this subject is its dynamic character that all the time there is a ceaseless flow of credit-production arising out of countless moral, intellectual, and material factors, and a similar but fundamentally smaller drain on this production which can be described as depreciation, and the real general ratio of the generalised income to the generalised expenditure must take account of all these factors. When, as at present, a whole civilisation is profoundly dissatisfied with its economic system, an element of depreciation is introduced which has far more influence on real credit than the most colossal destruction of material property by fire or otherwise.

## Credit Power and Democracy

If it can be made clear to the individuals whom we are placing by hypothesis in control of the policy of the mining industry that each of them, as individuals, benefits by an increase of the ratio of credit-production to credit-consumption, we shall bring individual interest plainly into line with the general interest, and so, apart from other factors, enormously expand real credit.

The one aspect of the economic system which is admittedly and clearly of interest to all individuals is price, and if, therefore, the miners can affect general prices in favour of the consumer without injuring themselves, we can rely on them as reasonable human beings to use their power to further such a consummation. Let us suppose the price of all commodities, including coal, bought for beneficial use by an individual consumer, to be equal to the cost of production multiplied by a fraction representing credit-consumption divided by credit-production, but that the price of coal bought for further production to be equal to cost simply; then the miners' clear interest as consumers is to create as much credit as possible for a minimum cost of production, because the cost of coal goes into the price of everything else bought, and these prices are only lowered to the consumer by the creation of real credit dependent, inter alia, on the use made of the coal. In everyday language, then, such a control as we are suggesting would operate towards the raising of the maximum amount of coal, at the minimum cost per ton, up to a limit where, in the judgment of the public acting through their expert officials in the banks, the credit-production per unit of coal raised was a maximum. After this point difficulties would be placed in the way of further coal production, and the man-hours of labour absorbed by the mining industry would begin to decrease and the relation of credit-production to cost would increase i.e., the industry would produce the same amount of real purchasing-power for distribution amongst its members through the agency of dividends with less work, wages, and salaries. It will at once be said by the dogmatic Socialist: "Yes, we thought it would turn out that the idle rich would benefit!" He is quite right, but let us see exactly who are going to be the "idle" rich.

The bank we are discussing, let it be clearly borne in mind, is not a mining company, it is a bank which we postulate shall finance in increasing proportion a group of mining companies, and be controlled and exist in the interest of, in the first place, those actively engaged in the mining industry. Now, by its issues of credit to these producing companies, it would eventually become possessed of most of their shares, which it would hold for the benefit of its depositors. Assuming a standard rate of dividend and an increasing number of shares due to successive "capitalisation," the depositors of this bank would be the beneficiaries equally of all the increasing number of shares held by the bank; so that as improvements in process displaced men from industry the purchasing - power they had helped to create would be available in the form of dividends. The mining industry would thus not have to consider the provision of employment its sole preoccupation would be the delivery of coal in the right quantity to the right order the order of the public, acting on the best advice available.

Those persons whose aptitude for the work was least would be displaced from the industry first; and in the earlier stages of the new order, the desire for remuneration in addition to that provided by their dividends, and in the later stages, the necessity to find an outlet for their creative activity, would drive such persons to seek fresh fields of usefulness a process of readjustment clearly tending to the very highest efficiency in the broadest sense, that resulting from the increasing suitability of individual and employment.

## Credit Power and Democracy

### CHAPTER XII

#### The measurement of Credit-production - What is "capitalisation"? - The growth of wealth - True Price - The sources of statistics.

It will no doubt occur to numbers of persons who on consideration of the foregoing arguments might find themselves in general agreement with them that the measurement of so apparently indefinite a factor as credit-production would present formidable difficulty. So far from this being the case, it is an operation which forms the basis of the whole activity of finance applied to industry at the present time, and the mechanism exists to enable the new basis of credit the useful (to human beings as such) productive capacity of society to replace the present basis of credit i.e., currency without the very slightest shock either to industry or to society, but with a steady and rapid appreciation both of the amenities of life and of the efficiency of industrial processes.

The key to the problem lies in control, as the National Guilds propaganda has previously been at pains to point out, without quite realising where control was resident. That element of the production system, which is loosely and erroneously referred to as being its "capitalisation" is its credit, and each increase in capitalisation is made on the assumption that the increase will pay a dividend i.e., represents increased capacity to deliver something. Now, because the control of this increase, through the agency of finance and credit-issue, is in the hands of persons whose objective is not goods but money, this financial increase is not a reflection of an increase in potential capacity to deliver useful goods and services, but merely, as we have just said, in the potential capacity to deliver money; but if the control of capital issues were in the hands of the consumer, then ex hypothesi a "capital" (i.e., credit) issue would be a measure of increased capacity to deliver goods and services of the description required by those in control of policy.

In this latter case the ratio of real credit-production to credit-consumption would be expressible in financial terms, and would be equal to:

$$\frac{\text{"Capital" (i.e., appreciation) issues per annum} + \text{credit-issues (i.e., cost of goods produced per annum)}}{\text{Depreciation} + \text{cost of goods consumed per annum}}$$

Once again it should be noticed that all the symbols in the preceding expression denote rates.

It will, of course, be understood that no absolute unit of measure of value is either possible or needful; it is, however, the popular delusion that a gold or other standard is an absolute measure of value which has obscured the economic problem for so long. The only possible standard which can be applied with accuracy to the measurement of economic values is that of ratio, a standard which does not require that we postulate anything at all about the unit used to establish the ratio, except that it is the same unit. To readers who are familiar with the mathematical hypothesis known as the theory of relativity, the basis of which may be quite simply expressed in the statement that it is impossible by means of physical measurements to determine the absolute velocity of a body through space, certain analogies will no doubt present themselves. For the average person, not particularly interested in such matters, no

## Credit Power and Democracy

difficulty arises in grasping what is meant by "ten miles per hour," even though he cannot conceive of "a mile" as distinct from "a mile long."

When, therefore, we say that:

$$\text{True Price (in £)} = \text{cost (in £)} \times \left( \frac{\text{cost of ultimate products consumed (£)} + \text{depreciation of real capital (in £)}}{\text{credit created (in £)} + \text{cost of total production (in £)}} \right)$$

we do not require to know anything about the properties of the pound sterling; we do not, for instance, require to know what is the absolute quantity of labour for which it is a "just" remuneration, and still less is it a matter of the slightest interest how much gold it represents.

We are simply saying in effect: "Credit, convertible into money, is a correct estimate of the capacity of society with its plant, culture, organisation, and moral, to deliver goods and services desired by individuals. Whatever unit we adopt for it, the number of these units held by the individuals who collectively compose society must be such that by surrendering these units they will receive in exchange all the goods and services which society can possibly deliver. As society's capacity to deliver goods and services is increased by the use of plant and still more by scientific progress, and decreased by the production, maintenance, or depreciation of it, we can issue credit, in costs, at a greater rate than the rate at which we take it back through prices of ultimate products, if capacity to supply individuals exceeds desire. This it can always be made to do, by ensuring that the production of capital goods is secondary to a sufficient production of ultimate products, and their delivery to individuals."

It will be seen, therefore, that we have every type of information required to fix the ratio we require at our disposal at any moment. The loan credit accounts of the banks, plus the ways and means and note and bond issues of the Treasury, plus the increase in capitalisation of productive organisations, roughly represent credit creation; cost of production is obtainable from the "factory" cost accounts, including now agricultural production accounts; the quantity and consequently the collective cost of articles bought by (i.e., delivered to) the public is available through such departments as the Ministry of Food, the Board of Inland Revenue, the Board of Trade, etc. In order to transform the measure of financial credit which these figures would give us into a measure of real credit, only two things are required: first, that control of credit-issue shall be in the hands of the consumer, so that production is moulded to his needs; and, secondly, that the number of credit units in the hands of the public shall be that necessary at any moment to buy the whole possible output of society, both of which premises are eventually met by the arrangements previously described. That they are not met by the existing economic system is self-evident on a consideration of, say, the relative amount of expenditure during the last ten years on factories, as compared with that on houses; and on the other hand, the utter insolvency of the British banking system during the few days immediately subsequent to the outbreak of war with Germany.

## Credit Power and Democracy

### CHAPTER XIII

#### **Finance as a creator of things - The producer-credit school - A form of Syndicalism - The tyranny of " work " again - Analysis of producer-credit - Certain rise of prices And failure - Consumer-control the only way to free producer-initiative - The world conspiracy - The end.**

IN a previous book (" Economic Democracy ") it was emphasised that no financial system in itself could affect concrete facts, and this statement may be carried a little farther by saying that what such a system can affect, is the psychology by which concrete facts are eventually materialised. For instance, it cannot be said with accuracy that the currency credit system actually wastes energy; but it is just as certain as anything can possibly be certain that the psychology of sabotage, which is the apotheosis of waste, is the direct outcome of the concentrated control of credit and of almost nothing else, a concentration resulting from the currency basis of credit.

Though the foregoing distinction may appear to savour of hair-splitting, it is nevertheless of vital importance, as a consideration of the proposals of what may be termed the producer-credit-control school, well represented by Mr. Arthur Kitson, will make clear.

Mr. Kitson has done most valuable service to a better industrial society both by courageously attacking the gold-standard fraud, and more generally by directing the attention of, firstly, manufacturers, and latterly, the general public, to the overwhelming importance of the money problem. With the destructive portion of his propaganda it is on the whole impossible for any fair-minded individual to disagree, and it is a thousand pities that anyone still under the dominion of the "Employer v. Labour" theory of industrial unrest (if there be any such) should fail to make himself acquainted with the helplessness of the so-called capitalist when faced with an arbitrary restriction of credit by one of the groups controlling it. But it is interesting to notice how the obsession of "work for its own sake" has held this school of thought. To its members production, any sort of production which " makes money," is wealth, and you cannot have too much of it; and, seeing quite accurately that their constructive proposals would, if carried out, enormously increase "employment," it is clear that no misgiving alloys their vision of an earth packed solid with the most modern and highly efficient factories, pouring out massed production into limitless space.

For the benefit of those who may be unfamiliar with the details of the proposals put forward by this group, they may be briefly summarised as providing for the discounting of bills of exchange, on demand and as of right, by banks, in favour of manufacturers, and the retention of the Treasury note and its expansion in quantity of issue to meet currency demands. Where, of course, such a scheme is an immense advance on present financial methods is that it makes the producer independent of the financier, because it gives him control of credit-issue. But it also makes him independent of the public, because it leaves him in control of prices, which are the negative aspect of credit. The manufacturer would then be absolute lord of the earth, since he would have the whole credit system in his hands; in fact, it is only in mechanism that producer-control of credit differs from the most thorough-going

## Credit Power and Democracy

Syndicalism. It may be said that this is mere assertion, but an analysis of the sequence of events will serve to demonstrate the contention.

A manufacturer under such conditions would obtain an order for goods from a source having effective demand i.e., the money to pay for them. He would draw a bill on his customer for payment of the whole or part of the sum in, say, three months, and the customer would accept it. The manufacturer would take this bill to the bank and the bank would automatically treat it, less a commission, as money i.e., would give him an overdraft (a creation of credit) for that amount or some recognised fraction of it. This new purchasingpower would be effective in the market before the goods, even if these were for ultimate consumption. If the goods were intermediate products they would never become effective as such in the individual consumer's market. Prices under such conditions would be equal to:

$$\frac{\text{Purchasing-power ex-(capital production + ultimate production)}}{\text{Consumable goods}}$$

and we should enter into the manufacturers' paradise and the consumers' purgatory an era of constantly soaring prices and continuous depreciation of currency.

Now, without in the very least aspersing the motives of the progenitors of such a programme, it is quite possible that they regard such an outcome with equanimity. It is quite possible and even sensible to hope that at any rate there would be more goods to go round, but such a hope would be based on only a superficial comprehension of the facts. More and more under the struggle for purchasing-power which would be intensified by such arrangements, the great masses of mankind would be employed in making things they did not want and could not use, in order to earn money to meet the constant rise in prices of articles which they do want and must use, and as a result the system would create quite inevitably a psychology of unrest: no wage rates would be stable and no leisure would be possible.

It is not usually wise to prophesy in terms of time, but in this case it is safe to say that, even if such a policy could be inaugurated, it could not last three years. Passing rapidly through a period of feverish activity and excessive capital and export production, a position would be reached in which misdirection of production and actual restriction of output of consumable goods would provoke either war, or absolute revolt, active or passive, with the result that cooperative production would fall to zero, and either a military despotism or a reversion to comparative barbarism would supervene.

Let it be emphasised once again that the root of this difficulty is fundamental it lies in assuming that the individual should serve industry rather than that industry should serve the individual. There is no suggestion intended in the foregoing pages that any restriction whatever should be placed in the way of anyone who wishes to make a new machine or devise a new process, or that he should be hindered in so doing very much to the contrary. The materialisation of the proposals for consumer- control of credit, outlined in the foregoing pages, would make it far easier than it is now, to experiment with any idea, however apparently wild it might appear at first sight. What they would prevent is the manufacture for sale, at the expense of the public, of armaments, machinery, factories, "luxuries," shoddy articles, etc., without the public as individuals having any opportunity to express an opinion as to whether such

## Credit Power and Democracy

articles are or are not a fit object on which to expend the capacity of the community to deliver goods and services i.e., its credit.

In other words, and more concretely, persons who wished to avail themselves of the facilities which enable them to so use the public credit as to sell "below cost" would only be able to do so after obtaining the necessary decision that their product is in the public interest. No definition of the public interest is either necessary or desirable it is quite sufficient that public agreement is obtained in the matter without depriving minorities of the opportunity of proving the majority wrong.

It will be observed that there is no conflict of opinion between the producer-control and the consumer-control ideas of credit issue as to the fact that an enormously increased use of credit facilities is the only radical solution of the present difficulties; and it is a curious phenomenon that large numbers of intelligent people, who can see this quite plainly, cannot see that it is just as feasible to issue this credit to the consumer by selling "below cost" as it is to issue it to the producer by anticipating payment. In both cases it is public credit which is used, but in the first place the credit is issued with the goods instead of in advance of unspecified production. The public is coextensive with the consumer, and while it is quite possible that it is, in a very broad sense, coextensive with the producer, we shall only arrive at that conclusion when we refuse to allow financiers on the one hand and Labour fanatics on the other, to arrogate to themselves the right to define production as something having an immediate money value.

And so we arrive at the same position as that reached in the consideration of various Socialistic proposals we are confronted by the fundamental alternatives of freedom and authority. But it should be possible, if the previous pages have conveyed the intention of their writer, to see that these are not necessarily alternatives at all they are policies each fundamentally "right" on its own plane of action. Self-expression of the individual is not only the certain eventual outcome of these present discontents it is the only outcome which will make possible a perfect voluntary discipline in execution based on a faith amounting to knowledge that thereby each private in the human army is fighting the fight which concerns every man freedom of judgment, movement, influence, and work.

Because the material existence of humanity has a basis of food, clothes, and shelter, a threat to these things is no less menacing a threat to freedom than that offered by a machine-gun, and far more insidious. No cool observer of world movements at this time can doubt that, whether, as some would have us believe, there is an active, conscious conspiracy to enslave the world, or whether, as is arguable, only blind forces are at work to the same end, is a question immaterial to the patent fact that the danger of such a tyranny is real and instant. Parties which would appear superficially to be separated by aims utterly divergent, such as, let us say, the German military party, and the Fabian section of the British Labour Party, are found on close analysis to have identical objectives the domination of a system over all effective individual dissent. In each case the steps to the achievement of the end consist in depriving the individual of economic independence either by vesting physical control in the State (conscription) or by "Nationalising" through grinding taxation or otherwise the means of production, and abolishing all purchasing-power not issued, on terms, by the State.

## Credit Power and Democracy

The projected personnel, of course, varies: some sections prefer the dictatorship of the Kaiser; some that of M. Trotsky; some that of, say, a Ministry of Transport; but a dictatorship of some sort or other seems to be the aim of each.

Against this terror mere physical force is powerless, itself it leads to that which it would destroy. But, nevertheless, there is a weapon to hand that faith, that credit, based on the unity-in-diversity of human needs, which in sober truth has moved mountains; without which the Panama Canal would never have been cut or the St. Lawrence spanned. Into the temple of this faith the money-changers have entered; and only when they have been cast out shall we have peace.

# Credit Power and Democracy

## APPENDIX

### A PRACTICAL SCHEME FOR THE ESTABLISHMENT OF ECONOMIC AND INDUSTRIAL DEMOCRACY

#### THE (MINING) SCHEME

[The following exemplary Scheme, drawn up for special application to the Mining Industry, is designed to enable a transition to be effected from the present state of industrial chaos to a state of economic democracy, with the minimum amount of friction and the maximum results in the general well-being. An explanatory commentary on the Scheme, clause by clause, appears below.]

#### DRAFT SCHEME

I.

(1) For the purpose of efficient operation *each* geological mining *area* shall be considered as *autonomous administratively*.

(2) *In each of these areas a branch of a Bank, to be formed by the M.F.G.B., shall be established, hereinafter referred to as the Producers' Bank. The Government shall recognise this Bank as an integral part of the mining industry regarded as a producer of wealth, and representing its credit. It shall ensure its affiliation with the Clearing House.*

(3) *The shareholders of the Bank shall consist of all persons engaged in the Mining Industry, ex-officio, whose accounts are kept by the Bank. Each shareholder shall be entitled to one vote at a shareholders' meeting.*

(4) *The Bank as such shall pay no dividend.*

(5) *The Capital already invested in the Mining properties and plant shall be entitled to a fixed return of, say, 6 per cent., and, together with all fresh Capital, shall continue to carry with it all the ordinary privileges of Capital administration other than Price fixing. Depreciation shall be set against appreciation.*

(6) *The Boards of Directors shall make all payments of wages and salaries direct to the Producers' Bank in bulk.*

(7) *In the case of a reduction in cost of working, one half of such reduction shall be dealt with in the National Credit Account, one quarter shall be credited to the Colliery owners, and one quarter to the Producers' Bank.*

(8) *From the setting to work of the Producers' Bank all subsequent expenditure on capital account shall be financed jointly by the Colliery owners and the Producers' Bank, in the ratio which the total dividends*

## Credit Power and Democracy

bear to the total wages and salaries. The *benefits of such financing done by the Producers' Bank shall accrue to the depositors.*

II.

(1) *The Government shall require from the Colliery owners a quarterly (half-yearly or yearly) statement, properly kept and audited, of the cost of production, including all dividends and bonuses.*

(2) *On the basis of this ascertained Cost, the Government shall by statute cause the Price of domestic coal to be regulated at a percentage of the ascertained Cost.*

(3) *This Price (of domestic coal) shall bear the same ratio to Cost as the total National Consumption of all descriptions of commodities does to the total National Production of Credit i.e.,*

Cost: Price:: Production: Consumption.

Price per ton = Cost per ton  $\times$   $\frac{\text{Cost value of Total Consumption}}{\text{Money value of Total Production}}$

[Total National Consumption includes Capital depreciation and Exports. Total National Production includes Capital appreciation and Imports.]

(4) *Industrial coal shall be debited to users at Cost plus an agreed percentage.*

(5) *The Price of coal for export shall be fixed from day to day in relation to the world-market and in the general interest.*

(6) *The Government shall reimburse to the Colliery owners the difference between their total Cost incurred and their total Price received, by means of Treasury Notes, such notes being debited, as now, to the National Credit Account.*

### COMMENTARY BY A. R. ORAGE

I.(i) ***For the purpose of efficient operation each geological mining area shall be considered as autonomous administratively.***

A somewhat similar recommendation, it may be remembered, was made by Sir Arthur Duckham in his Minority Report of the recent Coal Commission, in which he proposed that the separate colliery companies in each of the natural areas should be amalgamated into statutory companies for the purpose of local administration. The Labour members took objection to the proposal on the grounds that it contemplated the creation of a number of coal trusts, each monopolist in its own area, and that it contained no guarantee of betterment of working conditions, or of the restriction of profits." Assuming these objections to be removed by the present Scheme, the suggested regionalisation of the administration of the industry may be regarded as acceptable to the Miners' Federation, since in their own Draft Bill for the Nationalisation of Mines the Federation instructs the "Mining Council" to "divide

## Credit Power and Democracy

Great Britain into districts for the purpose of the carrying on and development of the Mining Industry" (Article 12). It is clear, therefore, that the Miners' Federation has no objection to the proposal contained in the clause as such and subject to the safeguards provided. Other considerations prove that the provision is desirable in all respects. Economically every great industrial organisation is driven in the interests of efficiency to regionalise its administration sooner or later, and the recent proposal of the Ministry of Transport to "group" the railways into six well-defined districts, each administratively autonomous, is a case in point. In the interests of decentralisation, likewise, such a devolution of administrative control is essential to the efficient working of the industry in respect both of conditions and personnel. Uniform conditions cannot be imposed upon industrial areas differing widely in natural and other respects without involving all the evils and waste of regimented bureaucracy; *what is needed is a local administration in intimate touch with local peculiarities and free to exploit its region's resources in the manner dictated by close familiarity with the concrete facts.* In personnel, furthermore, the aim of decentralisation is not only to reduce friction by short-circuiting the reference of the individual worker to the administrative control, but to secure, *in the interests of efficiency, as close a relation as possible between the man at the face of the coal and the management in charge.* After all, it is upon the man at the coal-face that the production of coal depends; and *the object of administration should be to provide him with every possible facility as regards conditions, times, equipment, and inducement, to produce the maximum amount of coal with the minimum amount of human energy-expenditure.* The division of mining areas by their natural or geological areas ensures a general local administration in harmony with the local conditions. The corresponding devolution of administrative control brings the actual management into close touch with the actual worker. And finally, in the classification proposed *there is contained the possibility of the comparison of Costs of working to enable a correct estimate to be made of relative efficiency in production.* The machinery involved in the proposal is described in the recommendation of Sir Arthur Duckham, and is implicit in the Article referred to in the Draft Bill of the Miners' Federation. The existing separate colliery companies in each of the defined geological areas would be required to amalgamate into statutory companies or, in the alternative, to set up working agreements that would answer the same end. Such working agreements are in operation at this moment: and their explicit recognition in the form of amalgamation would, in all probability, be the best course to adopt.

***1. (2) In each of these areas a branch of a Bank, to be formed by the M.F.G.B., shall be established, hereinafter referred to as the Producers' Bank. The Government shall recognise this Bank as an integral part of the mining industry regarded as a producer of wealth, and representing its (real) credit. It shall ensure its affiliation with the Clearing House.***

The crucial points in the present clause are the following:

- (i) The nature of Credit;
- (ii) The Miners' Federation of Great Britain as a representative of Credit;
- (iii) The function of the Producers' Bank; and
- (iv) The affiliation of such a Bank to the Clearing House.

## Credit Power and Democracy

(a) There are two kinds of Credit; Real Credit and Financial Credit. Real Credit is concerned with the probability of the delivery of Goods in their various forms; Financial Credit is concerned with the probability of the delivery of Money in its various forms. If we say that Real Credit concerns the Supply of Goods while Financial Credit concerns the supply of money, the distinction may be a little clearer. Real Credit is not measured by the actual supply of Goods, but by their potential supply. The measure of Real Credit is, in fact, the correct estimate of ability to produce and deliver goods as and when and where required. A machine has Real Credit to the amount of the correct estimate formed of its ability to produce goods in demand; so, too, has an industrial plant, an organisation of personnel, and, finally, a whole nation. ***A nation's Real Credit is the correct estimate of its ability to produce and deliver goods as and when and where required by the potential consumer.***

It will be seen from this definition that ***Real Credit depends upon two factors: on ability to produce and a need to be satisfied.*** Either is useless without the other; for the Producer of Goods that nobody wants is of no more value than a potential consumer of what is not produced. The Consumer, in other words, is quite as necessary to the production of Real Credit as the Producer, the Real Credit being their joint and common creation.

Not only, however, is the Consumer as such a necessary factor in the production of Real Credit, but the community at large is even more indispensable. Economically regarded, a nation is an association of people engaged in the production of Real Credit, and in this sense the State, as the custodian of the Real Credit of the community, may be said to represent the interests of Producer and Consumer equally, since both are equally necessary to the creation of Real Credit. Since, however, Producers and Consumers between them make up the whole community, we may conclude that Real Credit is social or communal in origin; that it belongs neither to the producer nor to the consumer, but to their common element, the community, of which they each form a part.

We may now go on to consider Financial Credit. Real Credit we have defined as the correct estimate of ability to deliver Goods as and when and where required. Financial Credit, on the other hand, is the correct estimate of ability to deliver Money as and when and where required. The distinction should be carefully noted, since it will be observed that Real Credit is based upon Goods, whereas Financial Credit is based upon Money, and ***money, as we know, does not necessarily stand in a valid relation to goods.*** Already it should be apparent that Financial Credit, being based upon Money, is one remove from Real Credit, since Money itself is only of value in so far as it, in turn, is based upon Goods. Thus we see that ***Real Credit is based upon Goods directly, whereas Financial Credit is based upon Goods only through the medium of Money.***

What is the function of Financial Credit? It is to set in motion and to direct Real Credit; it is Money, as we say, that makes the wheels go round. Let us suppose, for instance, that an industrial plant exists, capable of producing, let us say, boots, as and when and where required, and that the need for boots exists as such; we have then an embodiment of Real Credit, an ability to justify the expectation of a satisfactory rate of delivery of boots to those who need them. Before that plant can be set to work, however, and consequently before the need for boots can be satisfied, certain conditions must be fulfilled. The owner of the plant must obtain the means of production, in the form of raw materials, he must likewise have

## Credit Power and Democracy

the money with which to pay wages, salaries, and other costs; and for the wages and salaries he dispenses there must already be in existence the food, etc., for his employees to buy. In short, before he can begin producing boots, he must obtain control of the raw materials, etc., which are already in existence. How does he do it? Ex hypothesi, he has no Money or purchasing-power with which to go into the market, or to pay his employees. He has only an ability to produce boots, given the means just described. Under these circumstances he is therefore compelled to "borrow" purchasing - power or Financial Credit, as a means to obtaining control of the goods he needs in order to begin to produce; and the usual organ for the issue or lending of such Financial Credit is a Bank, since a Bank is, in addition to being a custodian of riches, a dealer in Financial Credit.

Now observe that the Bank from which our "capitalist" proposes to borrow Financial Credit for the purpose of setting his Real Credit in motion has no use for Goods as such. The basis of Money is, indeed, the belief that it represents Goods; in other words, Financial Credit ultimately rests on its association with Real Credit; but, immediately, Financial Credit rests, as we have seen, on Money; and the consideration of the Bank is directed, not to inquiring whether our producer can produce more or fewer boots, boots for the luxurious few or for the needy many, but whether our would-be producer can redeliver to the Bank the money he proposes to borrow. And this brings us once more to the prospective Consumer.

Suppose that there are no prospective consumers it is clear that the Bank will not lend money to the Producer which he cannot hope to receive from Consumers. But, further, suppose that the money in the possession of the prospective Consumers is only of small amount and soon exhausted; in other words, whatever the real needs of the consumer may be, their purchasing power only enables them to buy a few boots in that case, again, the Financial Credit issued or lent by the Bank will be restricted to the estimate of what the producer will be able to recover from the Consumer; that is, it will be measured, not by the Real Credit inherent in the ability to deliver boots as required, but by the ability of the producer to recover from the consumer the money lent to him. That, given the means, our Producer could produce more; that, given the money or means of demand, the Consumer could consume more these do not enter into the considerations of the Bank. The Bank is concerned with Money, and only with Goods as they are or can be related to Money.

***We have seen who are the Producers of Real Credit, or the ability to deliver goods as and when and where required. They are the Producers and Consumers jointly, or, in a word, the community at large. But we have just seen that they cannot begin to actualise their Real Credit until they have obtained the control over the means; and that this control over the means, in a modern State, is exercised by Financial Credit. Who is it that controls Financial Credit? Comprehensively the people who control Financial Credit are the Financial Power, and their acting organs are Banks. Banks issue Financial Credit to the possessors of Real Credit; and in this way enable Real Credit to actualise itself in real goods.***

If this were the whole story, our economic grievances might be less than they are. If every holder of Real Credit, every potential producer of goods in demand, could, as a matter of course, "borrow" Financial Credit to enable him to set to work, one part of our Scheme, and the whole Scheme of men like Sir

## Credit Power and Democracy

Oswald Stoll and Mr. Arthur Kitson would be realized; that is to say, every potential producer of goods would be enabled to produce. It is true that the multiplication of such Financial Credits would put up prices, the effect of which would be to reduce the effective or money demand of consumers. In other words, we might give the Producer the means to produce, but at the same time we should be reducing the ability of the consumer to purchase his production, the final effect of which would be to stop production. But at least one of the criticisms directed against the Banks would lose its validity; the Banks would issue Financial Credit to every Real Producer on demand. But it is not the whole story; for observe, once again, that Financial Credit is issued by the Banks, not to the producers of goods as producers of goods, but to the producers of goods only in so far as they are also, if at all, producers of Money. Let us suppose, for instance, that our boot-producer can convince a Bank that by producing fewer boots he can collect more money from the public. It is not an hypothesis, for, in fact, every trust or monopoly aims at this very thing: the raising of prices for the purpose of obtaining the maximum amount of money for a minimum expenditure in the delivery of goods, which, of course, ultimately means a minimum of goods. The Bank as such is not concerned that an insufficient quantity of each description of goods is certain to be produced; in other words, that the Real Credit of the community is certain not to be used as fully or efficiently as it might be. *The Financial Credit is issued, in fact, without regard to the welfare of the community, which consists in the full employment of the Real Credit at its disposal.* On the contrary, its issue is restricted to just so much as can be recovered by any means from the general public or consumer in fact, to the amount of money the prospective consumer has to spend. When this amount is spent, *there may still exist a considerable amount of Real Credit in the form of a Means to Produce and a Need to Consume, but Financial Credit will not be issued to unite them.* The money in the pockets of the Consumer is spent; and the Banks cannot expect to recover what they lend. They cease to lend: Production ceases and Consumption ceases.

*Now, this disharmony between Real Credit and Financial Credit lies at the root of our economic troubles;* and it is worth a great deal of trouble to understand it, since *no economic solution is possible that does not take it into account.* We have seen that Real Credit is a product of Production and Consumption, and that its final source is the Community as a whole. (One of these days we shall see that it is the world as a whole.) On the other hand, **Financial Credit**, that should be, and was designed to be, the handmaid of Real Credit, and only exists at all because of Real Credit, **is the monopoly of a comparatively few individuals, scarcely more than 1 in 100,000 of the population.** By "cornering" Money, and by requiring that no Real Credit shall be employed save in so far as its employment "makes money"; furthermore, by controlling the distribution of Money among producers and consumers alike, **they are actually able to control**, and they do, in fact, control, **the whole of Real Credit, which, we have seen, is a communal creation and possession.** We are not accusing the Financial Power of malignant hostility to society, though its effects are such as to make the charge plausible. The effect is inherent in the separation of Real Credit from Financial Credit; Social Credit, that is to say, from Financial Credit privately controlled. And the chief purpose of the present Scheme is to restore to the community the full use of Financial Credit as a necessary instrument towards the full use of its Real Credit. The means will, we hope, be clearer as we proceed.

## Credit Power and Democracy

(b) The Miners' Federation of Great Britain (to keep to our chosen example) is an organisation of men engaged in the production of coal. Coal, it will be allowed, is a chief asset in our national life and industry; in other words, it is a considerable factor in our total ability to deliver goods and services as and when and where required. In short, Coal is a contribution to the nation's Real Credit. Whatever may be the claim to Real Credit of the owners and administrators of the plant, etc., employed in Mining (the capitalists), it will not be denied that the Miners' Federation, as the contributors of Labour, have a similar claim. Coal cannot be produced in abundance without Capital, but it cannot be produced at all without the Labour of the M.F.G.B. The M.F.G.B. have only to go on strike to prove it; to prove, namely, that they are indispensable to the production of coal that is, to the creation of the Real Credit dependent on Coal. It follows that the M.F.G.B. is at least equally entitled with Capital to share in the Financial Credit that rests, in the last resort, on Real Credit; that, in short, the M.F.G.B. is a proper representative of part, at any rate, of the Real Credit due to Coal. Similarly, the public, as representing the ultimate reason for the existence of the Mining Industry, is also a factor in its Credit, and the depositors in the Bank are, as depositors, members of the public without qualification.

(c) A Bank is the organ for the issue of Financial Credit against Real Credit, through the medium of Money. The Producers' Bank herein suggested is the representative, in the first place, of the power inherent in the Real Credit contributed to the Mining Industry by the workers engaged in it, although its interest becomes increasingly that of its depositors, and its function, in the second place, would be to issue Financial Credit against the Real Credit inherent in the ability of the M.F.G.B. to produce coal, and the need of the public for coal.

(d) The affiliation of such a Bank with the Clearing House, at which cheques drawn upon the various banks are exchanged or "cleared," is necessary to the currency of the cheques of our Producers' Bank. It is thereby brought into relation with the Financial Credit of the community as a whole.

**I. (3) *The shareholders of the Bank shall consist of all persons engaged in the Mining Industry, ex-officio, whose accounts are kept by the Bank. Each shareholder shall be entitled to one vote at a shareholders' meeting.***

"The persons engaged in the Mining Industry include not only the wage earners who now constitute the M.F.G.B., but the present "salaried." ***With the creation of a joint interest in a common Credit represented by the Producers' Bank, and the abolition of the distinction between Capital and Labour as regards Financial Credit, the present exclusively proletarian Trade Union ceases to be necessary.*** Likewise, the separation of the salariat from the wage-earners ceases to have any real meaning. Thus the organisation becomes an Industrial Union, united as a single body of producers, and the former Trade Union, based on the antagonism of Labour and Capital, and organised, not in the interests of Production, but as a weapon of defence and offence against the Capitalist class as such, disappears, its end in the establishment of an all-in Industrial Union having been attained. The qualification "whose accounts are kept by the Bank" is intended to cover the continuing membership of those who may leave the industry. Thus if any member of the M.F.G.B. should leave the industry, after having contributed to the Credit which was employed to create the Capital, he would continue to benefit from the shares so

## Credit Power and Democracy

acquired, and the Bank would hold such shares in the Capital of the Mining Industry as had been allotted to him together with the privileges belonging to them.

The provision of a single vote for each shareholder is designed to obviate the possibility of control of Bank policy by merely the most highly paid members of the M.F.G.B. Presumably every member of the organisation is necessary to the organisation; in other words, to its Credit; and of equals one cannot be more necessary than another. *The aim, moreover, is democratic control of policy (not, be it understood, of processes), and since the Producers' Bank defines policy, while leaving means to the Capital directorate, the democratic principle of One Member One Vote is essential.*

I. (4) ***The Bank as such shall pay no dividend.***

***The Producers' Bank, it must be remembered, differs from the ordinary Bank in resting its Financial Credit,*** not upon Money, subscribed as Capital or borrowed in the form of Cash and other Deposits, but *upon its Real Credit* that is to say, upon its ability to produce Coal as and when and where required. Since, however, its Real Credit is convertible by means of its Financial Credit into Capital, and this Capital itself "earns a dividend" as a contributory to the general Capital of the industry, to pay a dividend on the Bank's issue of Credit would be to pay a dividend twice over namely, on the Credit issued, and on the Capital thereby created. The Producers' Bank is nothing more than the representative of the Real Credit of the M.F.G.B. - its financial agent, it may be said. Its business is to transform Real Credit into Financial Credit for the purpose of creating fresh Capital; and it then becomes the business of the fresh Capital so created to earn and pay a dividend. Moreover, it is not proposed, under the Scheme, nor is it at all desirable, that the Producers' Bank should represent any other Credit than the Real Credit of the industry; or that the Credit issued should be on any other account than that of the industry itself. ***The Producers' Bank is not a money-lending institution; nor does it, corporately, own any real Capital. It is, once more, simply the financial organ and representative of the Real Credit of the M.F.G.B.***

I. (5) ***The Capital already invested in the Mining properties and plant shall be entitled to a fixed return of, say, 6 per cent., and, together with all fresh Capital, shall continue to carry with it all the ordinary privileges of Capital administration other than Price-fixing.***

It is certain that the proposal to recognise the rights in perpetuity of the Capital already existing in the Mining (or any other) Industry will arouse opposition among those who are more concerned with historic phrases than with facts, and more disposed to revenge, under the cloak of "principle" than to the discovery of the best practical solution of the social problem. Such opposition, however, must be faced, and, if possible, overcome; and the means to this end are two. In the first place, it can be pointed out that as a matter of fact every other method of dealing with existing Capital than the frank recognition of its claims is either unpractical or amounts in the end to a veiled recognition of the claims in question. What are, in fact, the proposals? They are confiscation out and out, purchase by the State, or confiscation with what is called a "compassionate allowance" the provision, that is to say, of terminable annuities to the dispossessed owners of Capital. Is there any practical man in the Labour Movement who believes in his heart that either of the methods of confiscation suggested is conceivably possible without a real revolution? Assuming for a single instant that a real revolution would not destroy

## Credit Power and Democracy

Capital in the process (and thereby nullify itself as a means of confiscating Capital); does any Labour leader, responsible or irresponsible, believe that confiscation without revolution is possible? Would one of them venture to stake anything he personally holds dear upon it? There are, as we have said, Socialists and Labour leaders who preach confiscation as a "principle" and who, we have no doubt, would try to put the principle into practice; but it is more than doubtful whether one of them honestly believes that a policy of confiscation is practicable, save by means of a revolution in which much of the Capital in question would disappear. Purchase by the State, on the other hand, is simply covert, instead of overt, recognition of the claims of Capital. It is perfectly true that by transferring by purchase the ownership of the existing Capital from its present owners to the State, the present owners are got rid of from the industry in question. But not only are there new owners exercising all and even more of the privileges of the transferred Capital, but the bought-out former owners are now provided with Financial Credit (in the form of money or State bonds) with which they can proceed, if they please, to acquire Capital either in another industry, in the same country or in an industry abroad. In short, State-purchase is powerless to "get rid of" the Capitalist qua Capitalist. The policy differs from confiscation, perhaps, in being practicable; indeed, many capitalists would welcome it as a means of liquidating their present Capital; but its effect is much the same. An attempt at confiscation would destroy Capital; and State-purchase would not "abolish the Capitalist." Neither method is, therefore, really practical towards the real end in view.

The Scheme's recognition of the claims of existing Capital does not rest, however, solely on the ground of expediency. Expediency, it is true, is not to be despised as a means to an end, when the end is nothing less than the welfare of the world. And a good many "principles" would be worth sacrificing to the practical task of solving the economic problem of mankind. However, as has been said, it is not wholly or even mainly a matter of expediency in the present case; it is also a matter of principle; and the principle becomes clear when it is realised, first, that *the only privilege which Capital now exercises to the detriment of Society and of itself namely, Price-fixing is removed from it*; and, **secondly, that all the "fresh Capital" (much of it the direct property of the individual Producers) ranks equally with the existing Capital in its claim to privileges.** To take these points in their order: let it be considered first, **what are the privileges of Capital, when Price-fixing has been subtracted from them?** They do not include Financial Credit, since ex hypothesi, and under the Scheme, the control of the Financial Credit of the industry is in the hands of the Producers by means of the Producers' Bank. They will be found, in fact, to **consist of the duties and instrumental means of administration together with the receipt of "dividends" or a share in the proceeds of such administration; that and nothing more.** And, to come to the second point, since it is proposed that the M.F.G.B. through its Producers' Bank should hereinafter contribute to the Capital of the industry, the M.F.G.B. by means of its Capital holding will share in all the privileges of administration and dividends as defined. *Take from existing Capital its monopoly of the Real Credit of the industry; take from it the power to fix prices, and the whole evil of Capitalism is removed;* for, as Socialists frequently assert, it is not Capital that is evil, but Capitalism; and **Capitalism can be defined as the improper use of Capital.** Under the Scheme it is proposed to **take from Capital the improper privileges it has hitherto exercised.** They are not the privileges of administration or the privilege of deriving an income from the proceeds; they are **the privileges of a monopoly of credit and a monopoly of the power to fix Prices.** Given the restoration of these privileges to their proper source, the

## Credit Power and Democracy

community as Producer in the one case, and the community as Consumer in the second case, we cannot have too many Capitalists, sharers by right in the dividends of communal work. The Scheme looks forward to the time when everybody will draw a dividend in virtue of his sharehold in the communal enterprise.

### **I. (6) *The Boards of Directors shall make all payments of wages and salaries direct to the Producers' Bank in bulk.***

There is nothing novel in this proposal, since we understand from Lord Leverhulme that already Messrs. Lever Brothers have adopted the system of bulk-payment of wages and salaries through a local bank in their works in the North of England. The procedure is simple and certainly time-saving, as regards the administration of an industry. A cheque is made out by the Directorate for the full amount of the period's wages and salaries; the same is credited to the Producers' Bank, and the latter credits its members with their respective amounts. It may be convenient that the bulk-payment by the Directorate should be made partly by cheque (convertible into legal tender), partly in cash or legal tender itself. It is a matter of detail. What is not a matter of detail is the existence of a current of Financial Credit passing constantly through the Producers' Bank. It is estimated that the weekly wage-bill in the Mining Industry amounts to £4 millions. Add to this another million on account of salaries, and it will be seen that we have a constant current of Credit amounting to £5 millions passing through the Producers' Bank. Any Bank in the world would consider itself prosperous with such a client at its disposal. An individual who should deposit in a Bank £5 millions every Friday evening could carry on a considerable Banking business, even if on every other day of the week he should withdraw part of his deposits. Provided that his delivery of £5 millions in cash or credit were certain every Friday evening, his effective deposit would, in fact, be a cross-section of the current any day of the week; his constant credit, in other words, would be the whole sum of 5 millions. This fact of the "solvency" of the Producers' Bank in the accepted sense of the word must be insisted on, even though, in other respects, the Producers' Bank is not as other Banks; it does not "lend" credit indiscriminately, but only in its own industry, and on its own Real Credit. Without a penny of "money" the Producers' Bank would discharge all the functions assigned to it. With a current of ordinary Financial Credit of £5 millions passing through it, no question can be raised of its right to issue Financial Credit. Its right is double that of the ordinary Banks, since it possesses at once the basis of Financial Credit namely Cash; and the basis of Real Credit namely, the ability of the M.F.G.B. to produce coal as and when required.

### **I. (7) *In the case of a reduction in cost of working, one half of such reduction shall be dealt with in the National Credit Account, one quarter shall be credited to the Colliery owners, and one quarter to the Producers' Bank.***

A reduction in the cost of working is equivalent to an increase of Real Credit, being, as it is, an increase in the ability to produce as and when and where required. An illustration will make this plain. Suppose that the cost in man-hours of producing a million tons of coal this year were reduced by one half next year, the Real Credit of the Mining Industry would be exactly doubled; in other words, the ability to produce coals would be twice what it had been. Such reduction of cost, however, is never the sole unaided work of either the community, the owners of the Capital, or the workmen. No invention or

## Credit Power and Democracy

improvement in cost-saving springs fully developed in any one brain or in the community at large; but it presumes the existence of communal facilities, of the facilities afforded by existing Capital and of the education and skill of the workmen. In a word, to every invention of cost-saving there have been contributed elements drawn from the community, from Capital, and from Labour. The present clause recognises this undoubted fact, and in a practical manner distributes the increased credit more or less proportionately among the factors to which it is due; to the community as represented by the National Credit Account, one half; to the Mining Directorate (which, it will be remembered, tends under the Scheme to become identical with the M.F.G.B.), one quarter; and to the Producers' Bank, representative of the M.F.G.B., the remaining quarter. To return to the foregoing illustration, a reduction of 50 per cent, in cost enabling, let us say, 2 million tons of coal to be produced at the former cost of £1 million, and reckoning the former cost as £1 per ton, would involve the distribution amongst the three parties of the cost saved. The National Credit Account would be credited with a million pounds, and each of the other two accounts with  $\frac{1}{2}$  of a million. The question where the money would come from is irrelevant; the increased Financial Credit would be the simple reflection of the increased Real Credit resulting from the increased ability to produce coal. It need scarcely be pointed out that *the inducement to reduce costs is part and parcel of the present clause*. One of the fundamental principles, indeed, of the whole Scheme, is *the economy of energy*, which, in the positive sense, *is the increase of Real Credit*. The community, the Capitalist, and the workman are each offered an inducement to economise energy; in other words, to produce as much as possible at the smallest possible cost, a proceeding in direct antithesis to the existing state of affairs.

**I. (8) *From the setting to work of the Producers' Bank all subsequent expenditure on capital account shall be financed jointly by the Colliery owners and the Producers' Bank, in the ratio which the total dividends bear to the total wages and salaries. The benefits of such financing done by the Producers' Bank shall accrue to the depositors.***

We have seen from Clause I. 2 that the Producers' Bank represents that part of the Real Credit of the Mining Industry which rightly belongs to the Labour (wage and salaried) represented by the M.F.G.B. The Colliery owners or Directorate of the Capital of the Mining Industry have their own means of obtaining credit. The present Clause proposes that a future Capital expenditure shall be jointly subscribed by the Producers' Bank and the Colliery owners in a certain proportion; the proportion, in fact, which their respective contributions to the Real Credit of the Mining Industry bear to one another as measured in terms of their respective costs. It is understood that in the Mining Industry the allocation of costs between the direct producers and the owners of the Capital is, roughly, 9 to 1. In other words, if 100 million pounds be the annual cost of producing our coal, 10 million pounds is the cost of Capital, and 90 million pounds is the cost of Labour. It will be remembered that Costs are issues of credit. It follows that, assuming that these issues of credit are properly distributed, the proportions as regards the Real Credit of the industry are the same; and that the ratio of 9 to 1 is a correct representation of the relative contributions of Labour and Capital. For reasons already explained (I. 5) it is not proposed to make a retrospective reallocation of the existing Capital; but, on the other hand, a term is set to the existing monopoly of credit by only one of its factors. All future expenditure on Capital account in other words, all fresh Capital required in the Mining Industry is to be subscribed in the proportions named by

## Credit Power and Democracy

the two parties, and is to be held and exercised by them with all the rights and privileges attached. Let us suppose, for instance, that following upon the creation of the Producers' Bank representative of the Real Credit, for which the M.F.G.B. is responsible, a Directorate decides that a Capital expenditure of £100,000 is needed in order to open up a new mine or to develop an old one. The proposal is considered by the Producers' Bank, and any banks representing other Capital interests, and, if passed, proceeds to be dealt with as follows. The proportion of Wages and Salaries to Dividends being, we will suppose, 9 to 1, the Capital expenditure of £100,000 falls to be subscribed by the Producers' Bank and the Colliery owners in the amounts, respectively, of £90,000 and £10,000. The Producers' Bank thereupon issues a credit to the Directorate of £90,000, and thereby secures a corresponding share in the Capital of the industry. £90,000 worth of shares, in other words, are transferred or allotted by the Directorate to the Producers' Bank on account of the M.F.G.B., and such proportion of the "money" required as represents a correct estimate of increased rate of delivery is provided by a local credit, and does not affect the depositors' accounts. It is perfectly clear that in these circumstances one of the avowed aims of Labour namely, a share in the control of Capital would at once be on the way to fulfilment; and without, it will be observed, either expropriating existing Capital or Capitalists, or in any way "abolishing" the proper privileges of Capital administration in general. And, moreover, since it is notorious that in the Mining Industry, as in most other industries, considerable Capital expenditure is long overdue, the Producers' Bank would not have long to wait to acquire a correspondingly considerable holding in the Capital of the Mining Industry. We have been informed, in fact, that within ten years or so, under the operation of the present Clause, the Producers' Bank would be well in sight of the control (on behalf of the M.F.G.B.) of half the Capital of the industry. That the Colliery owners may conceive an objection to the subscription by the M.F.G.B. of nine-tenths of the new Capital they require is possible, and, perhaps, probable; but it cannot be said to be reasonable. Their present holding remains unimpaired together with all the privileges they do, in fact, claim for it; they are guaranteed as to the future, in which likewise, they share in the proportion due to their holding, and their present difficulty in raising fresh Capital is reduced, without any loss to themselves, to one-tenth. When we add that the social economic problem is thereby solved, the remaining objections must be regarded as fanciful. No practicable alternative to the Scheme exists in the minds of the irreconcilables on either side.

**II. (i) *The Government shall require from the Colliery owners a quarterly (half-yearly or yearly) statement, properly kept and audited, of the cost of production, including all dividends and bonuses.***

The provision for a periodical Statement of Costs, which should be as nearly as possible uniform in character, is not only necessary in view of the particular ratio afterwards to be established between Cost and Selling-price, but it is necessary as an item in the estimate of the total national expenditure. In other words, it is an indispensable element in the National Bookkeeping of our National Credit Account. It is a reflection on a community that prides itself on its commercial efficiency, that, hitherto, no proper National Balance Sheet has been returned or has been returnable. *Every estimate of our situation as an industrial nation has been largely guesswork, and has allowed for differences of opinion in regard to our condition varying from the opinion that we are wealthy beyond the dreams of avarice to the opinion that we are a poor nation on the verge of bankruptcy. The institution of a regular and more or less uniform*

## Credit Power and Democracy

*accounting system, showing the national costs of Production, is a belated reform that has now become practically urgent. In the present Scheme it is imperative.*

**II. (2) On the basis of this ascertained Cost, the Government shall by statute cause the Price of domestic coal to be regulated at a percentage of the ascertained Cost.**

It is so long since many of us were at school that the meaning of the word "percentage," as of the word "ratio," may forgivably have been forgotten. A percentage, then, is only a part of a hundred. For instance, 50 is part of 100; and 50 is therefore a percentage. Any number less than 100 is a percentage. One is 1 per cent., 2 is 2 per cent., and so on up to 99, which is 99 per cent. The present Clause proposes that the Price of domestic coal shall be only a part of the Cost, or a fraction of the Cost, the part or fraction being represented as a part of 100, or a percentage. Suppose that the Cost, as estimated in the audit mentioned in II. 1, is 100 pounds or shillings or pence, the value of the unit being no concern. Then the Price to be charged for it, in the case of domestic coal, is only a part of 100 that is, something less than the apparent Cost. It may be that the Price should be 10 if the Cost is 100; or it may be 20 or 30, or 40 or 50 in fact, any number up to 100, by which time Price would no longer be a part or percentage of Cost, but equal to Cost. It is important that there should be no doubt about the meaning of this Clause, since at the first glance the idea appears paradoxical. The meaning is in the literal sense of the words. *It is proposed to sell domestic coal at a part or fraction or percentage of its Cost; in other words, at something less than Cost.* The function of the Government or State in the matter is not arbitrary, as we shall see in the next Clause. It is not proposed that the Government shall sell domestic coal at any price it pleases. The Government's function, it will be seen, is to compile statistics, and to publish the results in a statute.

**II. (3) This Price (of domestic coal) shall bear the same ratio to Cost as the total National Consumption of all descriptions of commodities does to the total National Production of Credit i.e.,**

**Cost : Price :: Production : Consumption.**

**Price per ton = Cost per ton X  $\frac{\text{Cost value of Total Consumption}}{\text{Money value of Total Production}}$**

[Total National Consumption includes Capital depreciation and Exports. Total National Production includes Capital appreciation and Imports.]

In considering this Clause, a crux of the whole Scheme, it is necessary to bear in mind the definition already given (I. 2) of Real Credit. *Real Credit is the correct estimate of ability to produce and deliver goods as and when and where required. It does not consist of actual goods alone, but of actual goods plus potential goods. In fact, the potentiality of goods in other words, the correct belief that goods can actually be produced and delivered as and when and where wanted is more important in the long run than actual goods themselves, since it represents a resource of power over and above that necessary to supply to-day's needs.*

## Credit Power and Democracy

Looking at Production as being engaged in producing not only actual goods but the means of producing more goods, it will be seen that our total National Production is not to be measured by the amount of actual goods produced. The amount of actual goods produced is only a part, a fraction, a percentage, of our total production, if we include in our total production the means to make more goods. In other words, the actual goods we produce every year are only a fraction or percentage of the Real Credit we produce any year; and since it is by the growth of our Real Credit that we grow in wealth, it follows that our production of actual goods may be small at the same time that our production of Real Credit may be very great. Let us suppose, for instance, that by the construction of a considerable amount of very complicated and costly machinery we could ensure for ourselves, ever afterwards, an unlimited supply of, let us say, nitrogen from the air or energy from the sun's rays. During the period of its construction the whole nation might be doing very little else in the way of production; we might all be foregoing actual goods, producing as few as possible, consuming as few as possible, in order that the work of producing the new machinery should get forward with the utmost speed. In income during that period, as measured by the amount of actual goods produced (which is the method adopted by the orthodox economists and statisticians), we should appear to be a wretchedly poor nation. But by reason of the estimated ability of our new machinery to deliver goods in the future, as and when and where required, our total production, not of Goods, but of Real Credit, would nevertheless have been enormous; and we should be entitled to regard ourselves at the end of the period as "wealthier than ever." This illustration, which is by no means far-fetched, should enable the point to be grasped that our total National Production does not consist of actual Goods alone; the actual Goods produced are only a part of what is produced. The rest of *our total National Production consists in the means to make more goods, or, as we say, it consists of Capital Goods and improved processes; and Consumable Goods plus Capital Goods make up between them the sum of the Real Credit produced. To repeat the definition given in the present Clause, our total National Production consists of actual Goods, Capital Goods and their appreciation productively regarded, and Imports that is to say, of Goods "produced" from other countries.*

It will be seen that the definition of our total National Consumption follows on the lines of the definition just given of our total National Production. If what we produce consists of actual goods, capital goods and appreciation, and imports, then what we consume must consist of the same things the other way round. If we produce actual goods, we also consume actual goods. *If we produce and appreciate or improve Capital goods we also destroy and depreciate or wear out Capital goods. And if we import goods of both kinds, we also export goods of both kinds; and exports, so far as this country is concerned, is a species of consumption, as imports are a corresponding species of production.*

*Our Total National Balance Sheet may therefore be said to run as follows: Credit, actual goods produced, plus Capital appreciation plus Imports. Debit, actual goods consumed plus Capital depreciation plus Exports. The balance one way or the other would show whether as a community we had done well or badly. The whole would constitute our National Credit Account.*

The question whether in any given year the balance of our total National industry is on the right side or the wrong side is one to be settled, in the first place, by common knowledge, and in the second place, more exactly by proper accountancy and statistics. Remembering that *Production includes not only actual Goods, but Capital goods and appreciation*; and that it is to be measured, not by income based

## Credit Power and Democracy

upon actual goods, but by the amount of the Real Credit produced; remembering, again, that the sum of our consumption is only actual Goods consumed, plus the depreciation of Capital it must seem to common sense that, in fact, *the sum of our annual National Production of Real Credit vastly exceeds the sum of our annual consumption of Real Credit*; in other words, that on a correct estimate of our ability to produce and deliver goods as and when and where required, our Real Credit increases annually and probably at an accelerating rate. The point need not be laboured. Everybody knows that, thanks to discovery, invention, science, education, organisation, and all the other factors of "progress," our ability to deliver goods is constantly increasing. We do not say, of course, that our annual actual output has increased or is increasing at the same rate as our ability to produce. That, in fact, is part of the trouble. All that is said is that our net Real Credit or estimate of our ability to deliver goods as and when and where wanted is always increasing. We may consume more; but *always our means of producing more increases faster than our consumption*.

What is the precise ratio of our total National Production to our total National Consumption? In other words, what part or fraction of Production is Consumption? Do we produce (in the sense defined) twice as much, three times as much, four, five, six, ten times as much as we consume? What fraction of our total National Production of Real Credit is our total National Consumption of Real Credit? Without the exact statistics it is impossible to tell to a nicety. Various estimates have been made, and we are assured by the Board of Trade's experience of the Census of Production that a more or less exact calculation is not difficult. We have no doubt whatever that a rough estimate, answering our purpose, could be got out in a few weeks; and later statistics would correct an initial error. The point at issue would be satisfied, moreover, by an approximation; and there is no doubt in the minds of those able to form an estimate at all that the ratio of Production, as defined, to Consumption, as defined, is well within the expression of 4 to 1; in other words, that *our total National Production of Real Credit is at least four times our total National Consumption of Real Credit*; the ratio of Consumption to Production being, therefore, 1 to 4, as the ratio of Production to Consumption is 4 to 1.

To return to the formula contained in the present Clause, it follows that *if Price is to be the same fraction or part or percentage of Cost as our total National Consumption is of our total National Production, then Price (of domestic coal in this case) must be one quarter of Cost*. The ratio of total Production to total Consumption being 4 to 1, Cost and Price are to each other as 4 is to 1; or, again, Price must be a quarter of Cost.

*It may be asked, at this point, why an isolated commodity like coal should be sold "below cost."* Note first that the reduction applies only to domestic coal; coal, that is to say, used only as an ultimate product. It does not apply to capital coal that is to say, to coal used for further production. This is made clear in the next Clause. Likewise it does not apply to exported coal, the price of which is defined in Clause II. 5. *It applies only to domestic coal, to coal actually delivered to its final consumers*. Note, in the second place, that the question of reimbursing the Coal Directorate for the difference between their costs and the present proposed selling-price does not arise at this point. We shall consider it later when commenting on the last Clause of the Scheme (Clause II. 6). At this moment we are engaged in asking and answering the question why domestic coal should be sold, apparently, below cost; in fact, at one quarter of its apparent cost.

## Credit Power and Democracy

The answer will be found from a reexamination of the meaning of the crucial words, Real Credit. Real Credit we have defined as the correct estimate of ability to produce and deliver goods as and when and where wanted. The production of Real Credit is our national work; and not only the producer contributes to it, but the consumer as well (see Clause I. 2). The production of Real Credit, in fact, is a communal work, even though only individuals and organisations appear to be engaged directly in it. But the purpose of our national industry follows or is contained in the definition of Real Credit; in other words, it is to deliver goods as and when and where they are required. *It is obviously useless to have a productive plant, erected at great cost, that either produces goods that nobody wants, or that fails to deliver goods as and when and where they are wanted. The only value of Production lies in its Real Credit; and its Real Credit consists in the belief or estimate that it can deliver goods as required.*

If that is now clear, we can proceed to observe that *the production of Coal serves two purposes*; one, to provide fuel for domestic use that is to say, a commodity of direct service; and the second, to provide the means of producing other commodities through the instrument of capital goods in the form of machinery, transport, power, etc. In other words, the production of coal serves both to actualise Real Credit *by delivering domestic coal to the ultimate consumer, and to create more Real Credit by being used in capital appreciation.*

Balancing these two uses of coal against one another, we can say that *one part of the coal produced contributes to the consumption of the nation without any corresponding advantage to Real Credit* (except in so far as domestic coal is necessary to our general well-being), while *the other part of the coal produced is, indeed, consumed, but only to bring about an appreciation of Real Credit in the form of an increased ability to produce other ultimate goods.* Our accounts as regards coal, in fact, are as follows: Net Real Credit produced equals the increase of our total Productivity minus the sum of our consumption of coal, including in the latter both domestic and capital consumption.

Analyse this a little farther. It is not denied that coal is a contributory to our Real Credit. Much of our Real Credit, in fact, depends upon Coal. The total cost of producing coal is, therefore, an item in our National Real Credit Account: and *that part of the coal produced and consumed which is employed in capital appreciation is a clear gain to the Real Credit of the community.* Following the argument, it clearly appears that *the community should share in the appreciation of Real Credit brought about by the production of Coal at the same time that it shares in the depreciation resulting from the consumption of coal.* In other words, the community as consumer should, indeed, discharge the whole of the cost of producing coal; but, *since only a part of the coal produced is consumed without National Credit return,* while another part is consumed only in order to create more National Real Credit, *the total price charged to the ultimate or domestic consumer of coal should be that fraction of the total cost of coal which the total National Consumption of Credit is of the total National Production of Credit. In short, domestic coal should be sold at one quarter of the cost of producing coal.*

The problem may be approached in another way. Assuming that our total National Production of Real Credit is four times (or whatever it is) of our total National Consumption of Real Credit, *how is the individual or collective consumer* who, be it remembered, is an integral factor in Real Credit, and as truly part-producer of it as the direct producer himself how is he *to share in the surplus of Credit-Production*

## Credit Power and Democracy

*over Credit-Consumption?* It is conceivable that a balance might be struck at the end of our financial year, showing the nation's net gain of Real Credit, and that every citizen should be credited with his share of the increment of credit revealed. That would be a co-operative commonwealth indeed. The proposal of the Scheme is much simpler in practice, though the theory is similar. *Instead of waiting until the end of each year, and then apportioning the increment of Real Credit to every individual, the present Clause proposes to distribute the Credit at the same time that the Goods in question are bought, by charging to the consumer as Price only that fraction of Cost which Total Consumption is of Total Production.* If he be charged the Cost Price, he is clearly being debited with Consumption without at the same time being credited with the Production that is brought about by Consumption. He is charged with the depreciation of Credit, but he is not given the benefit of the resulting appreciation of Credit; and the total National Increment of Real Credit either goes into private hands or requires to be divided at the end of the year. By fixing the Price of all ultimate products (domestic coal in this instance) at the same fraction of Cost that our total National Consumption of Credit is of our total National Production of Credit, *the consumer is given his share of the increment of National Credit at the very moment when he wants it that is to say, when he is buying the goods which Real Credit exists to deliver to him.*

### **II. (4) Industrial coal shall be debited to users at Cost plus an agreed percentage.**

The purpose of the provision herein made is clear. It is to secure that the estimates of Cost (see II. i) shall include all costs, this being a condition of the subsequent fixing of Price by the ratio of Cost to Price. Furthermore, *since the use of coal for industrial or capital purposes is not yet the use of coal for ultimate or personal consumption, the full cost of industrial coal must be debited to the Production in which it will afterwards appear as an increment of Real Credit; in other words, it must be fully charged to the industry that proposes to create Real Credit by means of it.* The contention that, since domestic coal is consumed without return (save in welfare!), while industrial coal is consumed only to reappear as enhanced Real Credit, therefore domestic coal should be charged at Cost and industrial coal sold below cost (reversing, in fact, the provisions of the Scheme), will not bear examination. It is true that domestic coal is consumed without yielding credit, while industrial coal is consumed to yield up credit; but since the final definition and purpose of Real Credit is to deliver goods to the final consumer - that or nothing being the sole justification of industry - it follows *that Real Credit is only actualised by final consumption; until it results in the actual delivery of actual goods to the actual consumer, it is only part of the process of cost.* Price, in short, must be confined to the means of transferring ultimate goods to the ultimate consumer. Until we reach this stage in the process, there are no Prices properly so called, but only Costs of producing Real Credit. Finally, no industrial user of coal can complain if he is charged merely with the cost of his coal; it is entered among his costs in general; and he is given full credit for it. In course of time we shall deal with his final product in the same way in which coal is now being considered; that is to say, his final product also will be sold "below cost."

### **II. (5) The Price of coal for export shall be fixed from day to day in relation to the world-market and in the general interest.**

Without consenting to the doctrine that 'the foreigner must pay,' it is obviously impossible to apply to the world, which is not yet a single Credit-area, the principles applicable to a community that is. Coal is

## Credit Power and Democracy

one of the factors in the production of our Real Credit; and it may be that by exporting some of it abroad in exchange for other commodities our Real Credit may be more enhanced than by consuming it all at home. The Price to be charged abroad cannot, however (as yet), be fixed in either the ratio of domestic coal or at the cost of industrial coal, since in the case of exported coal our only return is what we get in immediate exchange for it. *We can sell coal to our own domestic consumers "below cost," because the supply of the domestic consumer is the ultimate object of organised society. We can sell coal to our industrial users at cost, because this cost reappears as an increment of Real Credit. But in the case of exported Coal, save for what we immediately get in return for it, it is gone without yielding either satisfaction of the consumer or Real Credit. In general, therefore, it appears proper to sell Coal for export at the price we can wisely ask for it, all things considered.* It may be at the prevalent competitive price in the world-market, though that would usually be bad national policy, or it may be less, even very much less. *The criterion is the value to ourselves or the use we can make on the exchange. It is conceivable that our own use of coal might be so skilful that nothing we could exchange for it would be worth exporting it for. Our Real Credit might, perhaps, be best increased by consuming all our coal at home.*

**II. (6) The Government shall reimburse to the Colliery owners the difference between their total Cost incurred and their total Price received, by means of Treasury Notes, such notes being debited, as now, to the National Credit Account.**

It is clear that the Colliery owners must recover their costs (including, as per Clause II. 1, dividends, etc. that is to say, their inducements to employ their Capital); it is also clear that, under *the operation of the ratio of Price to Cost in the use of domestic coal, all these costs will not be recovered in the total selling-price.* Their account so far with the nation stands thus: Cost incurred equals the estimate as indicated in II. 1. Price received equals (a) a fraction of the cost of the domestic coal produced and delivered, plus (b) Cost Price with percentage on industrial coal produced and sold; plus (c) market price of coal exported. *Their income, in fact, is derived from three sources: the domestic consumer, the industrial consumer, and the foreign market;* and it is the sum of these prices that has to be set off against the total Costs incurred. In general, we must suppose, the yield in Price will be less than the Cost incurred; in other words, *the Colliery owners will, so far, appear to be out of pocket on the whole transaction. The Clause proposes to make the difference up to them by a Credit (either in the form of Treasury notes or credit convertible into currency) out of the National Credit Account.* What, in fact, they do not recover of their total Costs in Price will be reimbursed to them by a draft on the National Credit Account, represented at present by the Treasury.

The principles underlying the proposal are probably clear by now; but *two minor objections* may arise. It may be said that the Treasury draft herein proposed necessarily involves *a large inflation of credit; and, secondly, it will possibly be urged that such a Treasury draft is no more than a State subsidy in short, a benevolent allowance at the expense of the taxpayer to the users of domestic coal.* Neither objection, however, is valid. The former is disposed of by two considerations: first, that every penny of the Cost incurred has already been disbursed by the Colliery directorate in other words, that *no inflation of credit is involved, since already the credit advanced has been "spent"; and secondly, that even if an inflation of credit should appear to occur, the only evil of an inflated currency namely, a rise in prices has already been provided against by means of the ratio in Clause II. 3. There is no harm in an abundance of money*

## Credit Power and Democracy

*provided that prices are not allowed to rise; on the contrary, an abundance of money, together with cheap goods, is what we all want.* Hitherto, however, the more money in currency, the dearer goods have become; with the natural consequence that people have come to regard an "inflation of credit," or the increase of purchasing-power, with just suspicion. *What "inflation of credit" may be said to be involved in the Scheme cannot possibly affect Prices, except by reducing them; since Prices, under the Scheme, are fixed not by the relation of Money to Goods, but by the relation of credit consumed to credit produced. Instead of being a function of Money, Price would be a function of Production. The more the Production in relation to the Consumption the lower the Price, quite regardless of the amount of money in currency.*

The objection that the Treasury draft suggested in the present Clause is a State dole at the expense of the taxpayer can easily be disposed of. Real Credit, as we have said, is a communal creation, the proper financial representative of which, in its totality, is the National Credit Account of the Treasury. The Cost incurred in the production of coal is, therefore, incurred on account of the National Credit; and it represents a debt owed to the industry by the community at large. Only part of the coal produced, however, is consumed, as we say, unproductively that is, domestically as an ultimate product (always remembering that this ultimate consumption, nevertheless, is the sole aim of production and National Credit generally); while the other part is consumed productively that is, it contributes an asset to the National Credit. Setting out the accounts as they stand in this connection, we see that the community owes to the Mining Industry the Costs incurred in the production of coal against which is set the value of the coal to the community. Not only, therefore, does the community owe this sum to the industry, but it has the wherewithal to pay it; and the wherewithal consists, in the first place, of the price actually paid for the coal, and, in the second place, of the enhanced Real Credit produced by means of Coal. ***The community is thus not taxed to make up the difference between Cost and Price, since that difference already exists in the form of the enhanced Real Credit resulting from the production of Coal. The community, through the National Credit Account, simply pays over to the Mining Industry the credit balance already created. In a word, it gives Financial Credit in recognition of Real Credit produced.*** The difference between such a draft of recognition and a State-dole paid out of taxes is obvious. A State-dole is a transfer of purchasing power from one set of persons to another set, without regard to the creation of credit. The Treasury draft suggested in the Clause is derived from the source to which it is returned. *It does not tax one set of citizens in order to transfer their purchasing-power to another set of citizens; no taxation, in fact, is involved in it at all.* The National Credit Account, through the instrument of the Treasury, recognises the fact that Real Credit has been produced by the Mining Industry, and, after paying for the coal consumed by means of price, gives Financial Credit for the surplus Real Credit, and thus discharges its total debt.

---

It has not been the purpose of the foregoing commentary to defend the Scheme against criticism, good, bad, or indifferent, but to explain its general meaning in order that its critics (if there are any) may be in no doubt of what the Scheme involves.

## Credit Power and Democracy

One further note in conclusion; a complete understanding of the principles underlying the Scheme or even a complete understanding of the construction of the Scheme itself is by no means necessary to its efficient operation. How many of those who operate the enormous complexity of modern machinery completely understand the Science of Mechanics or the Principles of Engineering? How many bankers, daily engaged in finance, completely understand either economics in general or the principles of Real and Financial Credit? What is needed on the one hand is a sufficient number of people to understand the Scheme and to put it into operation; and, on the other hand, the approval by the community at large of its results in practice. The results are certain if the Scheme be once adopted. But so far, no Executive of any Trade Union, Employers' Association, or Government department has sufficiently considered the Scheme to pass a judgment on its merits. Sooner or later, however, the time will come when such a Scheme will be all that stands between Chaos and Order in industry. For it is impossible that the present system should continue, and it is no less an incredible that any of the ordinary Socialist proposals can be realised without a "revolution" that would itself defeat their avowed object. Our desire is to carry on; and to carry forward while still carrying on.

PRINTED IN GREAT BRITAIN BY BILLING AND SONS, LTD., GUILDFORD AND ESHER

DOUGLAS, C.H. / HG

3701 Credit Power and Democracy.