The Douglas Scheme

I. Bursting the bubble

An interesting development since the war has been the rise of the "Social Credit" movement led by Major Douglas. Its interest for Socialists arises partly from the fact that it stands in the way of Socialist propaganda and prevents many workers (particularly the younger ones) from going to the trouble of studying Socialism, and partly from the peculiar features of the movement, features interesting in themselves. Here we have a political movement which almost completely ignores many of the ordinary methods of political parties. Instead of trying to capture Parliamentary seats and build up a party machine of its own, it relies on permeating the members of other parties. Its basis is not a long programme of immediate aims tacked on to a vague philosophy, as is usual with capitalist political parties, but a straightforward demand for an apparently simple, but fundamental, change in the monetary system. It does not change with every change in the political and industrial situation, but maintains a high degree of consistency. It is based on an economic theory which almost every economist and practising banker describes as absurd, yet it holds its own and goes on gathering adherents. It has produced a considerable body of books and periodical literature, and is hotly debated in trade union branches and many political organisations. It has so far reached recognition that Major Douglas was invited to give evidence before the Committee on Finance and Industry (MacMillan Committee). In studying the Douglas movement it is, therefore, necessary not only to decide whether the economist, Mr. D. H. Robertson, is correct when he says that " the arguments of Major Douglas . . . are founded on a fallacy so crude that, until one has looked into them for oneself, it is almost impossible to believe that they can really have been put forward," but also to explain how it happens that a theory so open to question has been able to win support.

One aspect of the second question can be dealt with right away, without going deeply into the theory at all. In essence, Major Douglas says that all the evils of trade depression, unemployment and poverty are caused by a "kink" in the monetary system, which results in a permanent shortage of purchasing power. He says that production of goods of all kinds could be easily and almost immediately increased to an enormous extent if it were not for the fact that this "kink" prevents the mass of the population from being able to buy the goods. By a simple correction of the defect in the monetary system, poverty could at once be abolished. That is the hope Major Douglas holds out. It is its simplicity and all-embracingness which makes it so attractive.

In times of economic disturbance and political unrest all those people who find their old mental landmarks shifting or overthrown, and who cannot themselves cut a path through the tangle, are desperately anxious to discover new guides, who will lead them to safety. Major Douglas's scheme has everything to recommend it from this point of view. The Liberal Party has ceased to be effective since the war. The Labour Party has been a failure in office and its old propaganda for nationalisation has had to be discarded without anything so simple and superficially attractive to take its place. Unemployment has been heavy and persistent and no Government has frankly faced the issue. The pre-war days of two big political parties, with more or less clearly defined policies, have gone, and we now have a situation in which the old lines of cleavage have largely disappeared. It is hard nowadays to tell what programme exactly the various parties stand for.

The economists are in as complete a muddle as the politicians. They produce their theories and explanations for the bewilderment of students, and the ordinary man in the street, who knows nothing of nice points of theory, sees only that the economists are hopelessly disagreed among themselves even about the elements of their subject; that their explanations and forecasts time and time again have been shown to be false; and that their attempts to advise and guide the politicians have had no obvious effect on the solution of the world's great problems.

Into this situation comes Major Douglas with a staggeringly simple proposition. Solve the problem of trade depression and poverty by distributing purchasing power free. Usher in the age of plenty!

The proposal is attractive to the worker who is unemployed; to the small manufacturer or shopkeeper who believes that but for the alleged dominance of the banks over industry he could hold his own in competition with the combines; and to the struggling professional man who sees that his supposed superior knowledge and training give no guarantee of a steady and comfortable livelihood. One merit the theory has in the eyes of its adherents is that it saves them from the necessity of making themselves familiar with the theories of the recognised economists. If, as Douglas says, all the economists (including Marx) have failed to notice the defect alleged to exist, and if this defect is of vital importance then why waste time studying economic textbooks?

With all these advantages it is not surprising that the theory of Major Douglas has made considerable headway and is known not only in England, but in the Dominions and U.S.A., where energetic groups carry on propaganda on its behalf.

A brief reference has already been made to the nature of the theory. Before going into details and analysing it a digression must be made in order to explain the position the banks and the money system occupy in the capitalist world. Without some such background all discussion of the Douglas proposition will be useless.

The Economic Basis

The first point to notice is that beneath all the processes of buying and selling, banking and commercial operations, lies the private ownership and control of the physical means of life. This is so obvious that it ought not to need mentioning, but it is often overlooked in discussions about currency and finance. Human beings need food, clothing and shelter, recreation and amusements. These things are provided by the application of human labour to the land, raw materials, and the instruments of production and distribution, but the individuals whose labour-power produces the wealth do not own it. All the land and raw materials and all the products are privately owned by individual capitalists or companies. The typical features of capitalist production are, then, the existence on the one hand of a large number of workers who get their living by selling their mental and physical energies for a wage or a salary, and, on the other hand, a relatively small number of capitalist investors who get their living by owning property and employing workers to use that property for the production of wealth. With their wages and salaries the workers can buy part of the wealth produced, and the balance remains in the possession of the capitalists. The workers consume the greater part of their share immediately, by eating food, by wearing out their clothes, and so on, while the capitalists, through the abundance of their wealth, are able to "save" a considerable part of it; that is to say, they take it not in the form of articles for personal consumption, but in the form of factories, machinery, etc., and all the various forms of additions to the existing stock of "means of production and distribution."

If we ignore for .the moment the whole of the elaborate machinery of buying and selling, banking, etc., and look only at the main underlying physical features of capitalism, what we see is millions of workers, producing and distributing the articles needed to sustain life, and working under the control of the capitalists who own the land, factories, railways, etc. The articles produced can be divided into three classes: (1) Articles needed for the subsistence of the workers (mainly necessities); (2) Articles for the subsistence of the propertied class, both necessities and luxuries; and (3) Articles needed for the repair and extension of existing means of production and distribution (factories, railways, etc.) and the erection of new kinds of means of production and distribution as new needs arise and are satisfied.

But, in fact, the above picture is over-simplified because capitalists and workers are not two closely organised world classes acting as two single units, but are composed of millions of separate individuals and groups acting on their own. If they were two single units, each represented by a responsible authority, we could imagine them planning production and distribution so that only so much of each kind of wealth is produced as is needed, and so that the responsible authority for each class divides the articles among its members as required. Actually the process is carried out with the assistance of the money system. Each capitalist firm produces goods of one or a few kinds (say, boots) and sells them for money. The money is used to pay for the costs of manufacture, raw materials, wages, profits, etc., and the individuals who receive the money spend it to buy goods of various kinds. The final effect arrived at by this money process is at bottom the exchange of commodities. Each individual who owns commodities goes into the market and effects an exchange, giving one kind of goods and receiving another kind or kinds. The worker goes into the market with labour power to sell. He receives wages and uses them to buy bread, clothes, etc.

The advantage of the money system over the direct exchange of goods – barter - is that simple barter is faced with the difficulty that the individual who brings boots to the market may not want to receive the articles brought into the market by the man who wants the boots. Money, on the other hand, is the "universal equivalent." He who has money can, if he has sufficient of it, buy any of the thousands of kinds of articles offered for sale. Consequently, the use of money as a medium of exchange is a great advance on systems of barter. But it must not be forgotten that the various substances which have been used as money (in modern times silver or gold) have been able to occupy that position only because they were like every other article in the all-important characteristic that they possessed value, while in addition gold and silver have qualities of durability and scarcity which make them most suitable for use as money. (The use of banknotes to represent certain quantities of gold or silver and to circulate in place of coins does not raise any issue which needs to be gone into at this stage.) .

The values of articles are not accidental or fixed by the free choice of the owners of them. Value is a relationship between the various articles depending upon the amount of labour required in their production. Leaving aside various complicating features we can say that a certain weight of gold has the same value as a certain weight of wheat, or a certain number of razor blades, because the labour required to produce each of these three quantities is the same.

We see, then, that the payment of a sum of money by one person to another is, in effect, a way of transferring command over goods from one person to another.

The Banking System

The origin of the banking system was the practice of depositing money for safe keeping with the goldsmiths and paying them for this service. The goldsmiths subsequently adopted the practice of paying interest to the depositor, and they re-lent the money at a higher rate of interest to a borrower. This was only an indirect way of the depositor himself lending his money at interest to the borrower. Whether the goldsmith acted as intermediary or whether the lending was done directly the general effect was the same, i.e., the owner of the money (representing a command over goods) was lending it to a borrower, who would thus, for a specified time, have at his disposal the means of buying goods. It was not an act of "creating" goods or values, but only of lending them, the banks being intermediaries between lenders and borrowers.

Fundamentally, the same process underlies the modern banking and credit system. People who deposit cash and cheques in the banks are, in effect, placing at the disposal of the banks a command over goods, expressed as a certain sum of money. The banks pay to the depositor a fluctuating rate of interest on most of the deposits, and place the deposits at the disposal of other persons and companies who wish to borrow. Again, it is, in effect, a process of transferring the command over goods from the saving section to the borrowing section. As the banks need security for their loans to industry the borrower in fact (or in effect) pledges his factory, his stock-in-trade, etc. The bank is just like a pawnbroker, except that the bank largely works on borrowed money. The banks are intermediaries between one set of property owners and another set. The borrowers pay interest to the banks, who pay a smaller or no interest to the lenders. The whole of the interest comes ultimately out of the productive process. The capitalist who borrows from the banks and sets production in motion is able to do so and to meet all his expenses and pay profit to shareholders and interest to the banks, because the values produced by his employees are greater than the values consumed in the process (including the values consumed in the maintenance of the workers, their wages). The base of the pyramid of capitalist industry is the workers (including, of course, the so-called brain workers) who produce values which cover all the costs of production, and cover wages and then still leave a surplus to be divided among the land-owning capitalist, the industrial-capitalist, and the money-lending capitalist in the form of rent, profit and interest.

That is a brief outline of the underlying framework of capitalist production, but Major Douglas and others who think like him cannot see this framework. All they can see is a confusing series of effects and appearances, confusing only because the underlying causes are not understood.

In a further article, the origin and nature of the Douglas theory will be explained.

(May 1933.)

II. How Major Douglas Discovered Capitalism

The origin of the Douglas theory has been explained by Major Douglas in this way. Out in India, before the war, he was struck by the way in which building operations were held up from time to time by "financial considerations." It appeared to him that if raw materials, human labour, tools and machinery, etc., are available it ought to be possible to go ahead with production to meet human needs. He was led to examine this problem and eventually put forward his theory of a permanent deficiency of purchasing power. In its simplest form the proposition is that a factory, or other productive organisation, makes payments under two heads: -

> "(a) 'All payments made to individuals (wages, salaries, and dividends),' and
> (b) 'All payments made to other organisations (raw materials, bank charges and other external costs).'"
>
> Then Major Douglas says: -
>
> "Now the rate of flow of purchasing power to individuals is represented by (a), but since all payments go into prices, the rate of flow of prices cannot be less than (a) plus (b). Since (a) will not purchase (a) plus (b), a proportion of the product at least equivalent to (b) must be distributed in the form of purchasing power which is not comprised in the description grouped under (a)."
>
> (See evidence to MacMillan Committee.)

This is the "kink" which Major Douglas professes to have discovered in the money system. It is wholly imaginary. Major Douglas is looking at only half of the process of production and sale. It is quite true that the money paid out in the form of wages, salaries and dividends in any week or other period will not be sufficient to buy all the products placed on the market by a particular firm, or by industry as a whole, but it does not have to do so. In any given week the persons with cash and bank deposits with which they can purchase goods, do not consist only of people holding unspent wages, salaries and dividends. It also includes persons (and companies) who have just received payment for raw materials and finished articles which they sold and delivered some time previously (in the previous week or other period) and who are now in the market buying finished products and more raw materials, partly for personal consumption and partly for further production.

Going back to our underlying picture of capitalism as a process of the production and the sale (or exchange) of articles whose values are determined by the amount of labour required in their production, although the price of an individual commodity need not be the same as its value, the sum total of all values is identical with the sum total of the prices at which all the goods actually sell. The total "purchasing power" in existence at any given time is the sum total of all the values and, therefore, cannot be more or less than the commodities in existence because the two things are the same. To say that there is a "deficiency of purchasing power" is like saying that the total values or prices of all the goods in the market is greater than the total values or prices of all the goods in the market; or like saying that there are goods in existence which have value but which cannot be exchanged for other goods having value — which is absurd. What are they? Who owns them? Neither Major Douglas nor anyone else can tell us, because they do not exist.

What Major Douglas has tried to explain does, it is true, need explaining, i.e., certain aspects of trade depression and unemployment.

Some Aspects of Trade Depression

It is not necessary to go into all the causes and symptoms of trade depression, as that would take us far beyond the point necessary to deal with the Douglas theory. The following points will suffice.

There is at the best of times always some unemployment. There is, for example, always a margin of unemployment due to workers leaving one job for another, or displaced by machinery, or thrown out of employment by an article going out of fashion which causes the industry to close down. There is under capitalism a permanent need for a "reserve army of unemployed." Rent, interest and profit can only be paid provided that there is an income for the investors, i.e., a sum over and above the amount invested. In other words, capitalist industry can normally function only if the workers produce goods having value in excess of the value of the goods required for their own maintenance. If that surplus disappears in any particular firm production soon stops. How can the workers be compelled to accept a wage which is low enough to leave a surplus? The Government, under the control of political parties with a mandate to safeguard the present order of things, protects the ownership of the means of production and distribution, and prevents the workers from taking possession. Being thus deprived of the opportunity of supplying themselves directly with the necessities of life, the workers are faced with the alternatives of stealing or begging or living on the bare margin of subsistence on unemployment pay, or of accepting employment on terms to which the employers will agree. If life on unemployment pay were to be made sufficiently agreeable, wages would be forced up because the number of workers seeking employment would decline. The surplus out of which rent, interest and profits are paid would then disappear. Hence the truism that some margin of unemployment is a necessary pillar of capitalist industry. Labour-saving machinery and methods keep renewing this margin of unemployment.

Nevertheless, in periods of "good trade" there is a more or less close approximation to full employment. Thus, in 1929, when it was customary to bemoan the high level of unemployment, nine workers out of every ten were actually at work.

As was pointed out in the first part of this article (see May *Socialist Standard*) the workers are engaged in producing articles of three main kinds, (a) articles for their own consumption, (b) articles for the employers' consumption, and (c) articles needed for the extension of the means of production and distribution (e.g., new and enlarged factories). In times of good trade, as fast (or nearly as fast) as the various kinds of articles are produced and put into the market, they are bought and taken out of the market. Production and consumption are fairly closely in harmony, and there is not acute "over-production."

Then periodically comes a time of "crisis," when consumption fails to keep up with the old rate of production, prices and profits fall, production is curtailed and men are thrown out of work in large numbers. Once the crisis has begun it is aggravated by the fact that consumption by the workers is further cut down through unemployment and reduced wages. This curtailment of consumption is *forced* on the workers. Another curtailment — the curtailment of consumption by the employers, is not strictly forced by lack of means to buy, but is in a sense a voluntary curtailment; it is due to the fact that in times of "crisis," owing to a feeling of insecurity, wealthy people decide to reduce their luxury expenditure.

There are many factors which may combine to cause a crisis. They may be lumped together under the description "factors which dislocate the market." Wars, revolutions, stock exchange slumps, an excessive volume of production of one or more articles (e.g., an unexpectedly big wheat or cotton crop), strikes and lockouts, labour-saving machinery, new inventions — all of these may help to upset world markets by causing a fall in demand or an increase in supply, by depressing security prices, or by causing sudden rises or falls in the prices of particular articles, or (if the value of gold is affected) by rises or falls in the prices of all articles. But whatever the causes may be the general underlying picture of production and consumption during a crisis is the same. The owners and controllers of the means of production and distribution are saying, in effect, to the workers: Because we cannot see the prospect of making a profit we have for the time being curtailed the output of our factories, and our plans for extending our factories, and also our own personal consumption of goods. We shall therefore not need the services of large numbers of you. Millions of workers then having been deprived of their employment and their consumption accordingly reduced, the employers still further curtail the production of new articles, while they consume the abundant unsold supplies which have accumulated.

The Douglas theorists (who naturally receive more attention during a crisis than at other times) explain the depression by saying that there is insufficient purchasing power to take the goods off the market, and add that this is all due to the abuse of their power by the banks. Yet it is not because the banks have or have not done certain things that those who need goods but are poor cannot get them, it is because they are poor. It is because the goods and the means of producing them are owned and controlled by the propertied class, with the backing of the police and the armed forces. There is no lack of purchasing power for society as a whole, but a concentration of purchasing power; not in the hands of the banks alone, but in the hands of all who own and control.

How true this is can be clearly seen from the activities of the State during times of crisis. Although members of Governments frequently make the same kind of panic statements about "universal poverty" during a crisis as are made by the business men who demand lowered taxation because "they cannot afford to pay," the measures taken by Governments to alleviate the misery caused by unemployment belie their statements. Although production declines during a crisis all Governments are forced to take steps to transfer purchasing power from the rich to the unemployed to enable them to live, and as the amount of unemployment grows so the amount of purchasing power transferred in this way also grows. In other words, the purchasing power *does* exist, and it is only one section of the population which is largely or very largely deprived of it. Looking below the surface to get true picture of the State grants and charitable gifts to the unemployed we see that the property-owners are in effect allowing the unemployed to consume part of the accumulation of goods free of cost. In U.S.A., where a general system of unemployed pay is lacking, the Government has actually distributed enormous stocks of cotton and wheat, to be made into clothing and bread for the unemployed workers and ruined farmers. We see here how crises could be avoided.

If the means of production and distribution were taken out of the ownership and control of the employing class, and placed under the control of society, production would be planned instead of being haphazard, goods would not be produced by independent producers each unaware of the plans of the others. If surplus goods of some particular kind were produced they would not derange the consumption and production of other goods, and workers temporarily not engaged in production would not get penalised by semi-starvation. (This of course does not mean the so-called Planning in Russia, for there the basic conditions are capitalistic, not Socialistic.)

So much for the general principles underlying the Douglas Theory. It may be remarked that there appears to be precious little theory about it, This is true. There is really nothing in the Douglas theory except the one total fallacy. Nevertheless a large number of subsidiary errors have been evolved or borrowed by the Douglasites. They are worth dealing with, because, quite apart from their having been taken up by Major Douglas, they are to be found in all kind of other useless and harmful movements.

Some Fallacies of Major Douglas

One is a fallacious theory about the working of the banking system. Basing their belief on a statement made by Mr. Reginald McKenna, Chairman of the Midland Bank, the Douglasites believe quite literally that Banks possess an inexhaustible power of "creating credit" by the simple device of making book entries. They think that banks lend what they have not got to business men for the purpose of financing production; that the business men deposit the loans in the banks, thus making more deposits; that there is no limit to it; that it is done without cost to the banks; and that all our economic problems could be solved by the simple device of the banks giving away money free to the general public, under the name of "social credit.".

The whole thing is a colossal myth. In the first place, if the Douglasites would only take the trouble to read what McKenna actually said in the addresses reprinted in *Post-War Banking Policy* (Heinemann, 1928. 7s.6d.) they would realise that he never for a moment meant what they thought he meant by the statement that "every bank loan creates a deposit." He did not mean that something is created out of nothing. For example, in a loose phrase, but one which most people have no difficulty in understanding, he says (p. 4): "Anyone who takes notes out of his note-case and pays them into his bank creates a deposit." This sufficiently indicates what Mr. McKenna means when he says "creates."

> On page 8 he says:-
>
> "Traders sometimes assume that banks have an unlimited power of making advances. They forget that every advance made by a bank comes out of the bank's cash resources. It is true that advances return to the banks in the form of fresh deposits and thus restore the bank's cash resources to their former level, but the result is to leave them finally with additional liabilities to their depositors without any addition to their bank cash."

On page 93 he refers to the notion that the banks or the Bank of England "can create or destroy money," or "increase or diminish wealth," and says: "I need hardly say nothing of the sort happens. A bank loan creates a deposit and therefore it creates money. But the deposit is a liability of the bank against which a debt is due to it, and the bank merely stands as an intermediary between the depositor and the borrower."

> "All that is done by the banks when they create money is to increase the amount of debts due to and from themselves. "

The late Mr. Walter Leaf, Chairman of the Westminster Bank, in his *Banking* (Home University Library) was even more explicit in ridiculing the whole idea.

The fact is, as Mr. McKenna pointed out, that banks are merely intermediaries between one set of property-owners and another set. They place purchasing power or command over goods belonging to the depositors at the disposal of the bank's borrowers. They naturally do not lend money without security in the form of a hold over the property (the factory or stock of the borrowing firm). In effect, as was pointed out in the first article (see May *Socialist Standard*) the business man who borrows from a bank on the security of the assets of his business is in the same position as the man who pledges his watch at a pawnbroker's. The bank does not "create" the money it lends to the borrower. Like the pawnbroker, the bank cannot lend what it has not got. The difference is that the pawnbroker works on his own money, while the bank works on borrowed money (i.e., the money deposited with it).

At the MacMillan Committee ("Committee on. Finance and Industry") in 1930, Major Douglas claimed that Mr. McKenna, who was a member of the Committee, agrees with this notion about banks creating credit. Major Douglas, therefore, argued that it was not necessary for him to prove the theory. Major Douglas pressed his view that the banks "create credits" at no cost, by book entries and loans to industry. Mr. McKenna (Question 4423 and 4425) had to explain to Major Douglas that the banks paid (at that time) an average of about two per cent or three per cent on money deposited with them. It was here that Mr. McKenna added, evidently with good reason, "Possibly you are not familiar with the working of the banking system."

This entirely disposes of the claim that Mr. McKenna accepts or works on the theory attributed to him by Major Douglas and his supporters.

Many other Douglasite fallacies were exposed at the MacMillan Committee's inquiry.

The Douglas Theory and Past Crises

The Chairman, Lord MacMillan, put one question which shook Major Douglas badly, He was asked (Question 4380-4388) if he considers that the alleged "inherent defect in our financial or monetary system" had existed for 100 years. Major Douglas said yes. He was then asked to explain why this "inherent defect" has not gone on causing "progressive unemployment and progressive depression" through the 100 years, and why in fact there have been periods of expansion. Major Douglas was only able to give the lame reply that he would like to look into a particular period to give an answer (Question 4386) and that he thought the rate of increase in productive capacity could have been greater had this alleged defect not existed.

Neither answer meets the question, and nothing in Major Douglas's statements of his theory will really serve to explain the known alternation of trade expansion and trade depression.

Major Douglas was evasive when he was asked to say what are his practical remedies. He has been studying the question for 18 years or more, but replied (Question 4389): "Well, I am afraid my training and experience as an engineer makes me want to hedge on that point. I would say that what I should first want to do would be to examine the situation very closely — more closely than in my position I am able to do."

When pressed to explain at least the principles of his remedies, he said (Question 4432), that whereas now a person pays, say, £100 for a motor car, he would under the Douglas scheme pay £75, and the other £25 would be supplied by the Treasury, via the Bank of England. When asked where the Treasury would get the £25, Major Douglas could only keep on repeating his strange delusion that the banks have the power to "create credit" out of nothing, and without cost except the cost of making book-keeping entries.

It is true that Major Douglas, even without being a banker, can write down at no cost except that of ink, pen and paper, fabulous sums purporting to represent wealth, but he has never explained how bread and boots and bricks and motor cars can be extracted from a fictitious fund of that kind.

In a concluding article some other fallacies of Major Douglas will be considered.

(June 1933)

III. Prosperity in America

Major Douglas was rash enough in his evidence before the MacMillan Committee to give instances of "prosperity" having been achieved in various countries abroad by the adoption of what he regards as a more or less satisfactory financial policy. One country he mentioned was France, where, according to him "there is no unemployment." It is true that at that time unemployment was not so heavy in France as in England (Major Douglas was quite wrong in saying that there was *no* unemployment there) but he said nothing of the great poverty which existed in France in spite of a more or less "correct" financial policy; and even Major Douglas must be aware of the enormous unemployment which exists in France at the present time.

Another country he selected for mention was America. He instanced the large increase in bank deposits in America between 1922 and 1928, as compared with only a trifling increase in the deposits of the English banks. He said:-

> "It is not necessary. I think, to seek further for the cause of the disparity in material and industrial prosperity between this country and the United States in the post-war period."

Everyone is now well enough aware of the unemployment and trade depression in the U.S.A., but the fact is that during the years mentioned by Major Douglas (1922-1928) there was considerable unemployment and the usual contrasts between extravagant wealth and desperate poverty. It is just bad luck and misinformation which made Major Douglas raise the question of American "prosperity" at a time, 1930, when the great American depression was well under way and gathering momentum every day.

Bank Loans to Industry

Major Douglas holds the view that the amount of deposits standing to the credit of depositors can be increased indefinitely by the banks, by means of increasing their loans to industry. It was in this way that he tried to explain the rise in deposits in the U.S.A. and the consequent "prosperity."

What Major Douglas will not face up to is that banks do not and cannot (except at the risk of eventual bankruptcy) lend money without good security. The only security that business firms can offer in the ultimate is the prospect of being able to sell their goods at a profit. If a particular industry is overproducing in relation to the demands of the market, or if a general crisis is on, firms cannot offer that security. In that condition loans by banks would in many cases simply be giving the money away, and even then without turning depression into brisk trade. During 1932, between 2nd February and 30th September, the U.S.A. Reconstruction Finance Corporation (set up under Government auspices) used bank reserves and borrowed money equal to £282,000,000 gold pounds to enable the banks to make loans to industry (*News-Chronicle*, 8th December, 1932).

Yet there was not the slightest sign of trade revival.

The Hon. Rupert Beckett, Chairman of the Westminster Bank, Ltd., commented on this. He referred to U.S.A., and to the abundance of money seeking profitable investment in England, and said:-

> "Until quite recently the view was widely held that internal economic recovery could be stimulated by cheap money and credit expansion. The history of the last 12 months both in the United States and in this country has done much to discredit this theory . . . The United States is a country which approaches so nearly to economic self-sufficiency that it provides the most favourable territory for the try-out of the inflationary experiment, and in so far as it has been tried out it has failed . . . My purpose is rather to draw attention to the lesson driven home by 1932 that credit expansion and cheap money are not a panacea in themselves. A plethora of credit is of itself incapable of inducing trade activity, unless there is somebody ready and willing to make use of that credit for the financing of enterprise. In a word, credit expansion is of active usefulness only when the manufacturing and trading communities of the world have sufficient confidence to make plans ahead and, to borrow money to finance them. The supreme problem, therefore, is the restoration of confidence. "
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> (*Times*, February 3rd, 1933.)

Major Douglas's error can be illustrated from another angle.

The very thing which he associated with American "prosperity," i.e., the increase in bank deposits, was taking place on an enormous scale in Great Britain during the present depression. But whereas the Douglas theory sees bank deposits resulting from an increase of bank loans to industry, precisely the opposite took place. Bank loans were falling heavily during 1932 and bank deposits were increasing heavily! So much for this false theory.

Do the Banks Own Everything?

Other illusions held by Major Douglas are that "with negligible exceptions, power to buy originates and is vested in the banking system" and that "the greater proportion of the larger industrial undertakings have passed from the possession of those who originally initiated and financed them into the control of banks and finance houses" (see evidence to MacMillan Committee).

In an address delivered at Ipswich on April 4th, 1933, Major Douglas said: "You can see at once that this monopoly of the power of creating money . . . means that those who are in possession of this monopoly are the potential or actual owners of everything produced in the world" (*New English Weekly*, May 11th, 1933).

The easily ascertainable facts belie this.

"Power to buy" is possessed by those who own valuable properties of all kinds, and it is fantastic to argue that all valuable properties have passed into the control of banks and finance houses. Major Douglas does not give and cannot give a shred of evidence to back up this nonsense. The overwhelming mass of profits flow from industrial and commercial concerns and not from banks and financial houses, and Major Douglas has only to look down the lists of shareholders of any typical industrial and commercial concern to see that the recipients of these profits are not wholly or mainly bankers. Are our millionaires all bankers? Is Woolworths, with its 70% profit in 1932, a bank? Are the coal, shipping and iron companies which made fabulous profits during the war, banks? Are the motor companies, the breweries, the Insurance Companies, banks? In America we have recently seen thousands of banks go bankrupt (why did they not get Major Douglas to show them how to "create credit?"), while Mr. Ford, an industrialist, actually had to come to the aid of banks in Detroit.

It will be noticed that at the MacMillan Committee Major Douglas said that control has already passed to the banks and finance houses. In his address at Ipswich three years later he interposes the word "potential," and gives us the much more cautious statement that the banks are "potential or actual" owners of everything produced in the world. This access of caution, while intended to get Major Douglas out of one difficulty, only lands him in another. For if the second way of putting it is really intended to mean something different from the first way, then Major Douglas is asking us to believe that the banks could assume possession of everything but choose not to do so. If Major Douglas wants to say that, then it is up to him to explain so extraordinary a situation.

Let us examine somewhat more deeply the statement that possession of the greater proportion of the larger industrial undertakings has passed from the non-banker owners. Each year *Whitaker's Almanack* and the *Daily Mail* Year Book publish a list of the largest fortunes left during the past year. An examination will show that the fortunes made in banking are a very small percentage of the whole. By far the greater number are the fortunes of manufacturers and traders, coal and shipping owners, brewers, etc. In other words, their wealth has *not* passed to the banks. The list of 23 large fortunes in the 1933 *Whitaker* is a typical one. It includes £2,125,000 left by a shipping magnate, £1,055,000 left by the head of a tourist agency, £929,000 by the head of a firm of chemists, £1,522,000 by a provision importer, £764,000 by the deputy-chairman of an artificial silk concern, and £764,000 by a cotton manufacturer. The fortunes range from £456,000 up to £2,125,000, and other interests represented among the 23 are mining and shipping, another cotton manufacturer, groceries, housebuilding in London suburbs, brewing. In three or four instances the interest represented cannot be ascertained. There is only one large fortune which is that of a banker.

Is not the Prudential (with a dividend rate several times as high as. that of any English bank) in possession of "power to buy?" Actually, with its £250,000,000 assets, its income of millions of pounds a week seeking investment, and its interest in or control over industrial and commercial concerns of all kinds the Prudential is probably a power greater than any English bank.

We have at least two instances of banking businesses being controlled by trading concerns, Messrs. Harrods and Messrs. Thomas Cooks. According to Major Douglas this ought to give them power to create untold wealth. Why don't they?

When the *New English Weekly* (a Douglasite paper) was asked to explain why, if they have so much power, the banks pay dividends so moderate in amount as compared with those of many commercial concerns, the editor gave the lame answer that the banks pay a moderate dividend as a "matter of policy," but that they could pay "hundreds per cent." He gave no evidence whatever for his statement and, indeed, admitted that the bank's "secret reserves are secret," and that therefore he cannot know what they are. His statement, if true, must imply that the secret reserves are also kept secret from the Income Tax Authorities, otherwise the Government would have an unlimited income from income tax on the banks' reserves. The chief absurdity about the whole reply is the assumption that bank shareholders, who could, according to this argument, enjoy dividends of hundreds per cent., choose to be content with a mere 12% or 15%! The editor added that it is "control" the banks want, not profits — "their profits are relatively unimportant." This introduces us to a new and unbelievable type of capitalist investor, the man who wants nominal powers and not profits! Let Major Douglas tell us why some of the banks reduced their dividend in 1931 and 1932, and why they took the trouble to save a few tens of thousands of pounds by reducing the pay of their staff.

Why has not Major Douglas started a bank and made himself a master of industry simply by "creating credit?" Why do banks ever go bankrupt? Why do not Governments solve all their problems by going in for banking?

Obviously the whole thing is a myth and the reply of the editor of the *New English Weekly* is a desperate attempt to stop up a case which gapes with holes like a sieve.

As for the general proposition of a "deficiency of purchasing power" the increase in bank deposits during 1932 by £250 millions, the enormous over-subscriptions which take place here whenever a safe investment is offered to the investing public, and the continuing evidences of great wealth in the hands of the richest section of the population, these undisputed facts demonstrate unquestionably that the purchasing power exists and could be used to buy the goods which the manufacturers complain they cannot sell, if (and it is a big if) those who have the money wished to buy the goods.

Banks and Government

A sideline of the Douglas theory is that the banks control the Governments. This again will not square with the facts. The English banks, like English industry, work under the protection of Acts of Parliament. What Parliament made, Parliament could unmake if its members had behind them an electorate which wanted such a course of action. Recently we saw President Roosevelt overruling American banks, and we saw Hitler, on his rise to power, summarily dismiss one head of the Reichsbank (Dr. Luther) and replace him with another (Dr. Schacht).

The *New English Weekly*, in fact, has had to recognise that where the banks have obstructed certain Governmental policies they have only been able to do so because the electors endorsed the policy of the banks. In its issue dated 26th May, 1932, the *New English Weekly* referred to the defeat of Labour Governments in New South Wales and Victoria (Australia), when they came into conflict with the banks. The Editor added the comment:-

> "It is idle . . . to lay the blame on the Bank of England or upon its agent, the notorious Mr. Niemeyer. The Bank did not cast the votes of the Australian electors or create out of nothing, as it does money, the popular reaction against the policy of Mr. Lang and Mr. Holgan."

The *New English Weekly* draws its conclusions:-

> "The moral to be drawn . . . we think, is that a radical monetary policy is possible under two forms of Government only - a dictatorship . . . or a 'Patriotic Government' largely and predominantly composed of 'Tory Aristocrats,' by whatever name they may be called."

This is of interest as showing how essentially reactionary the Douglasites, like all so-called "currency reformers," really are; their policy can be carried out by "Tory Aristocrats," the ennobled Tory brewers, shipping magnates, newspaper proprietors, bankers and others who so lovingly safeguard the interests of the propertied class.

Conclusion

It is now necessary to summarise what has been said about the Douglas scheme, and put it into proper perspective in relation to Socialism and the working class.

It is based not upon knowledge, but on a profound ignorance both of the underlying forces of capitalism and of the superficial forms of trade and industry. It thrives on a ludicrous proposition which owes its persistence largely to the fact that it is so amazing. Those who hear of it and are not familiar with economic theories and terminology feel that it must be true because otherwise an intelligent person like Major Douglas could not have the stupidity to believe it or the effrontery to put it forward knowing it to be false. What these credulous persons overlook is that there is simply no limit to the nonsense which able but unscientific persons of limited experience are capable of believing when they wander into strange fields.

The Douglas Movement owes its support to a number of factors. Many people particularly young ones, are not attracted by the established political parties, which they denounce as "the old gangs," nor can they fail to notice the economists' and politicians' manifest inability to grasp the problems of poverty and trade depression and to deal with them. The Douglas theory has the special attraction that it calls for little knowledge, no study, only a parrot-like mouthing of a few phrases. alleged (falsely) to be backed up by Mr. McKenna, Chairman of the Midland Bank.

It succeeds in winning adherents easily, because it deliberately avoids challenging the political parties. Instead of forming a political party with the definite aim of conquering power for the application of its schemes, the Douglas Movement relies on "peaceful penetration" into the existing parties. Thus it is able to boast that it has adherents, or at least sympathisers, high and low in the ranks of all the capitalist parties.

If the Douglas Movement came out in the open as a political party, it would quickly learn that gaining vague sympathy is a very different thing from winning more votes than the opposing parties. The other parties would very quickly turn their attention to smashing or swallowing the movement, according to whether they judged it to be a good vote-catcher or not. But as soon as one party took it up the other parties would turn and rend it.

In one instance, at least, the Douglasites did run a candidate in a local by-election, in the East Central Ward at Gateshead. The Labour candidate held the seat, and the Douglas candidate and a Communist candidate together only obtained 190 votes, an insignificant poll in comparison with the Labour vote (*New Clarion*, 11th February, 1933).

In a broader sense the Douglasites' attitude towards politics shows them to be completely without understanding of the problem before us. Leaving aside the question of the soundness of their theory their view is that a scheme has only to be shown to be practicable for it to be adopted. They ignore all questions of the nature and control of political power. Actually we see political power (which is the dominating factor) in the hands of a section of the propertied class. It is useless for Major Douglas or anyone else to come forward with a scheme unless (a) the scheme is attractive to those who wield power, or (b) that the steps are going to be taken by those to whom the scheme is attractive to obtain the power to put it into operation.

Does Major Douglas think that his scheme is likely to attract those whose interests are represented by the present Government, that is the bankers and big industrialists? Obviously not! Then what is Major Douglas doing to get these people out of power? The answer is, nothing! The probable reason (even if it is not consciously recognised by Major Douglas) is that any attempt to interfere in elections on a large scale would speedily deprive the movement of the major part of its funds and support.

It is a movement without an organised political basis; a parasite on the various capitalist parties. It has no real roots, and under the appropriate conditions is the kind of movement which would rush helter skelter after a Mussolini, a Hitler, a Lang, or any other loud voiced advocate of violence as a cover under which to perpetuate and safeguard the sway of capitalism.

The Douglas movement has its chief propagandists among the professional section of the working class and among the little business men, conscious that big business is crushing them and lowering their standard of living, and unable to seek a way out except that indicated by big business itself. There is always scope for friction between the banks and moneylending capitalists on the one hand, and the industrial and commercial capitalist on the other, and, of course, the financial losses of the former might give corresponding gains to the latter. But where do the professional men and little business men come in? Will the great industrial and commercial combines give better pay and more jobs to their staffs as a result of getting the banks to reduce their charges on loans? Will lower loan charges save the little manufacturer from ruin? The little boot manufacturer thinks that if he could get money from the bank at 2% instead of 8% he would be better off, but he forgets that if everyone got loans at 2% competition would be intensified, because every other small boot manufacturer would be equally favoured. And still the big manufacturer would have the advantage given by larger scale production.

These facts are, however, obscured, hence the readiness with which any currency-mongering which promises "plenty of customers" and "cheap money" gains adherents among those who stand midway between the mass of wage and salary earners on the one hand and the large-scale capitalists in finance and industry on the other .

One incidental evil arising out of the Douglas movement is that, to the extent that it gains support among the workers and in the trade unions, it makes Socialist propaganda more difficult and weakens the effort to resist wage reductions. The worker who falls a victim to Douglasism quite naturally disregards Socialist propaganda. Douglas promises the millennium of unlimited wealth by the simple device of controlling the banks. In comparison Socialism looks dull and slow-moving.

On the trade union side the Douglasites say that if their theory is correct, all trade union organisation and action is a sheer waste of time. If the banks control all industry and all purchasing power, of what use is it to try to get higher wages out of the employers? On the political side he says it is of no use gaining control of the State. Logically, therefore, the Douglasite rejects both trade unions and political organisation. To him all political parties (including the Socialist Party) are useless. He is, in fact, if not in theory, the complete anarchist, satisfied to chant his sacred formulas in a world where preaching is futile unless followed up by political organisation and action.

Douglasism as a refuge for the bewildered is a product of capitalism's contradictions, and in particular a product of capitalist crises. As a currency theory it is essentially not new or original, but has a record running back a century at least. It is utterly unscientific. As a separate political force it is negligible; although under certain conditions it might be used by sections of the industrial capitalists who want inflation. Socially it is based on some of the least stable and least conscious elements of the population. Economically it is reactionary. As a practical contribution to human progress it is worthless.

(July 1933)