The Douglas Credit Scheme

Two Points of View Put Forward by Major C. H. DOUGLAS and DENNIS ROBERTSON

M AJOR C. H. DOUGLAS: There is little doubt, or indeed, difference of opinion, in circles familiar with these matters, that the root of the world's unrest is to be found in the working of the financial system. A glut of goods on the one hand, combined with the capacity to produce still more goods; and an immense unsatisfied demand for goods, verging on poverty, on the other hand, is ample proof that it is the link between production and consumption which is faulty. At this point, however, there is a broad divergence of opinion into a school which suggests that the financial system came down from Heaven and is in itself perfect, while only man, and particularly the banker, is vile; and a school of thought, to which I belong, which suggests that man and the banker would have to be a good deal viler than they are, to make such a mess of a perfect system as would produce the state of affairs existing in the world today. To us, the key to the present distresses is in the word 'debt', with its converse 'creditor', and we say that under modern conditions the present financial system automatically creates debts in excess of the power of the public to liquidate them by its outstanding credits.

We know why this is so. The creation of real wealth, goods and services, does not create the money to buy those goods and services. Money is created by the banking system in the same way as if it were created by printing bank notes, and it reaches the community as a debt to the bank, unless issued in payment for securities, which constitute the control of capital assets. If I grow a ton of potatoes, I do not grow the money to buy a ton of potatoes. The banking system makes the money and claims it as its own, and lends it, upon its own terms. Since this money will 'buy' my potatoes, they belong potentially, with everything else, to the banks. The money issued by the modern financial system, with the exception of what we might call 'small change', is therefore issued as a mortgage and pays interest to the banking system. If it is a loan, it pays interest directly. If it has been issued in return for the sale to the banks of stocks or shares (since the banks rarely buy anything but debentures or preference stocks) the interest on these stocks also forms a perpetual charge on the money issued. Not merely the interest on the mortgage, however, but the mortgage itself has to be paid off, and the money value both of the interest and of the repayment of the mortgage can only be collected from the public through the agency of prices of, or, in the case of Government debt, of taxes. As a result of this, the general level of prices is too high for the consumer and too low for the producer. The truth of this contention is proved by the mounting figures of debt which show that we are not from day to day paying our way, and it is significant that this increase of debt is greatest in times of greatest industrial activity, culminating in a situation which produces what we call a 'slump', accompanied by a repudiation of debts both public and private.
Now it is obvious that there is a great difference between a debt which represents the loan of money, laboriously saved through a lifetime of hard work, and invested, let us say, in industrial shares, or in a small business, and the much larger debts which are created by the banking system by writing figures in a book or by printing notes, or lending them. The genuine investments of the public for the most part, instead of being costless money which were issued for the purpose of producing real capital in the form of machinery or buildings, and when these loans have been repaid by the investment of the public, there is no money outstanding in respect of these capital assets; it has been destroyed by the bank. The new owners, however, by industrial cost accounting, endeavour to sell the real assets to the public by including them in the price charged for goods and services, and as the money equivalent of these prices does not exist, they fail, or, as the phrase goes, 'their businesses do not pay'.

This portion of the problem, while puzzling, can be shortly stated. The present financial system claims payment in money for the creation of money itself. Since it creates all money, payment in money for the use of money can only be made by creating fresh debt. In addition to this claim by the bank for the use of its money, the industrialist, with much more reason, claims payment for the use of his real plant and buildings; and he claims it also in money. Neither he nor the banking system, however, recovers the necessary money to enable this payment to be made by the public.

This situation is progressively serious, since modern production is machine or capital production rather than hand or labour production, so that the proportion of wages and salaries to capital charges is progressively less. We have, therefore, two problems to solve: first, to make it possible for the general population to buy goods at the same price as when they are produced by a diminishing number of people, and an increasing amount of machinery, without going deeper and deeper into debt; and secondly, to do this by a method which does not require the whole of the population to be employed. Obviously, we do not do this by the dole system, which merely takes away from one part of the population, by taxation, a certain amount of money for the benefit of the unemployed, but does not in any way increase the total amount of money available.

What are commonly referred to as the 'Douglas credit proposals' consist of a recognition of this situation, and a number of varying proposals designed to meet it. While the principles of these proposals remain substantially the same, the proposals themselves are capable of considerable variation, and are, in the nature of things, bound to be somewhat complex.* The main features of these proposals consist in an issue of money, partly devoted to enabling a large reduction of prices to be made, while ensuring a proper return to the producer of goods, and partly by an increasing dividend to every Britishborn citizen. These two issues provide the purchasing power necessary to form a demand upon the producing system, either up to the capacity of the producing system to meet it, or until the needs of the population are met, whichever is the smaller, and by their adjustment the question created by machine production can be met. There is no more difficulty in creating the money for this purpose or there was in creating the enormous sums of money required to prosecute the European War, which amounted to nearly ten millions sterling per day. It can be done without introducing any features into our financial system which are novel in mechanism. Since this money would be retired either by its use in purchasing consumable goods or in the purchase of the securities which represent capital assets, in the same manner that the sale of securities by a bank destroys money, it would not remain as a debt against the public.

Let us turn for a few minutes to the results which would follow the institution of proposals based upon such principles. Poverty, and perhaps even more important still, the fear of poverty, would disappear for ever from this country. At the outset, there would be a large increase in employment, since the money would be forthcoming to enable purchases to be made from the shops, and those purchases, by emptying the shops, would fill the factories with orders for goods to replace them. The producer in every grade of life would be assured of a reasonable return for his activities, and, by being delivered from the fear of the irrational booms and slumps which are caused by an irresponsible and defective monetary policy, would be encouraged to employ the best machinery, the best methods, and the best men. As a result of this, we should find quality becoming a more important matter than price. But perhaps the most immediately important effect would be upon international relations, which are a matter more of economics than of what is commonly called 'goodwill'.

The inability of the population of any modern industrial country to buy the goods which it itself produces, makes competition for foreign markets the inevitable policy of all Governments, and is in no way to be attached to it. Since all modern countries are becoming industrialist, it is an impossibility that all countries can export more than they import, and this situation is that which is at the root of modern wars. By the institution of a modified financial system which would rectify this lack of balance between purchasing power and collective prices, and at the same time remove the economic distress which now accompanies unemployment, this pressure to export would immediately be relieved. This does not mean that foreign trade would cease. On the contrary, it is clear that if we cannot buy the goods we ourselves produce, we cannot buy goods which are exchanged for them at any other rate than our own. This new goods sets us free to exchange goods with other nations upon equitable terms. It seems impossible to doubt that such exchange would both take place and would increase, as the progress of the industrial arts enabled all of us to employ more of our time in enjoying the things that we produce, rather than in making them for the purpose of export to undeveloped countries.

You may very reasonably ask, if the difficulties of the world are in essence book-keeping difficulties, which they are, why it should be so difficult to solve them. I am afraid that there is only one answer to this. Imagine yourselves possessed of the sole legal right to create money. Would you be inclined to listen to arguments that would severely modify this monopoly? Probably not. Financial institutions have such a monopoly, and are fighting to retain it. For this reason the first step to a better state of affairs is a wider public understanding of the existence and nature of this 'monopoly of credit', as it is called. I am so convinced myself that a majority of bankers, particularly in this country, are themselves only operators of a system which they take for granted, that I have little doubt that public opinion could be brought effectively to bear upon the international minority who may, perhaps, be considered as uneatable.

Dennis Robertson

I believe that if Major Douglas and I were to settle down comfortably for a couple of days to discuss these difficult matters, we should find that on almost every point raised we started in agreement, but came sooner or later to a parting of the ways. For instance, we agree that banks create money when they make loans to customers or buy securities from the public. But while he looks on this manufacture of money as being necessarily an act of black magic, I look on it as a process which can be carried on in just such a way, and on just such...
a scale, that the banking system becomes what bankers believe it to be, namely, an instrument for putting the savings of the public extensively at the disposal of industry and commerce. Again, we should agree that this "monopoly of credit," if you like to call it so, gives the banking system a tremendous power over the economic life of the country. But whereas he would infer that the result of this virtual abolition of banking is to "tend before a chronic deficiency of power..." so far as concerns for raw materials, which he has not mentioned here, I think I detect some signs of weakening in his recent writings. I think I detect the beginning of a trend towards recognizing that the payments made today by the baker to the miller for the source out of which the miller recoups himself for the wages the miller yesterday and puts himself in funds for the wages he must pay tomorrow. Production is a continuous process, and so long as no producer or dealer forms a link in this working-capital—hence, is a link in the continuous process of production in general—there is no good to be lost, and in the absence of moderate periods of interest on the semi-public bodies, and as to whether or not, by this manufacture of money, banks in fact make incomes which are out of proportion to the charges the income which other people make by the manufacture, say, of soap or of popular songs.

Again, I should agree with Major Douglas that the way in which the banks of our history, the creation of money, the means of payments, has been used to purchase by the mistakes of policy and of financial and commercial lending and borrowing, is very peculiar and in circumstances very inconvenient. At a time of acute depression like the present, the operation of private banking becomes a blunt and clumsy weapon for increasing the flow of incomes and generating up production and trade; for business men are unwilling to borrow, and those from whom the banks buy securities are often unwilling to loan while the transformation of their sales, Major Douglas, being, like many engineers, a bit of a prophet, a dreamer, is led by this consideration to advocate an ambitious scheme for social credit. I, being, like most university dons, a rather humble person, am rather doubtful as to whether the banking system reinforces the cheap money policy of the banks by schemes of public expenditure. But in principle I am prepared to go a good deal further than that; and I think that I would go so far as to express the opinion that would be more enlightened in these matters than it is now, and which would be, not possible, without fear of undermining confidence, to make much more use then we do now of Government finance as an aid to economic policy, by giving money away to people in times of slump and—one must not, I am afraid, forget the other side of the story—taking it away from them by excessive rates of interest in times of over-confidence and over-expansion. Major Douglas, like Major Douglas, is prone to exaggerate the increase in recent years in man's powers of production, I should agree with him that they are not great as yet, and the system of private enterprise is a big problem of readjustment. If it is to be successful in distributing increased leisure among the people as it has been, on the whole, in distributing increased wealth. But I do not think this problem can be solved by any merely monetary device; and, though I am not myself a Communist, I have some sympathy with those who reject Major Douglas' proposals because they hold that drastic changes in much more fundamental matters than the more machinery of credit will be necessary to put things right.

Finally, I should agree with Major Douglas that our present international troubles are largely due to the tendency of nations to compete with one another, and that this is in itself, instead of as a means to procure useful imports, whether of goods, services, or securities. I want to emphasize these points of agreement, because, whether or not it be true that banks have a monopoly of credit, it is certainly great to see the system of private enterprise as a big problem of readjustment, if it is to be successful in distributing increased leisure among the people as it has been, on the whole, in distributing increased wealth. But I do not think this problem can be solved by any merely monetary device; and, though I am not myself a Communist, I have some sympathy with those who reject Major Douglas' proposals because they hold that drastic changes in much more fundamental matters than the more machinery of credit will be necessary to put things right.

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prention and paraphrases of certain matters with which I have dealt in my book, and, in a simpler form, here. He then expresses his own disagreement with his own paraphrase, and not that I can be expected to accept this as an answer to my arguments.

He finally asks three questions. The general, and I believe irrefutable, answer to these is contained in my explanation of the working of the financial system. I should be delighted to answer the questions in the form in which he puts them, but in five minutes, and not to the exclusion of comment on certain of his statements. He kindly suggests that, like many engineers, I am a bit of a poet and a dreamer, while, like most university dons, he is a severely practical person. I would remind the dreamers, generally, of one true Engineer. Engineers have been responsible for most of the technical advances of the past century, while the business system, and its severely practical persons (of whom I should not, of course, myself suggest, that Mr. Robertson is one) are suspect of causing most of our present difficulties.

I think he does himself injustice when he contemplates quite definitely a succession of booms and slumps as an inherent fact of our life. Mr. Robertson does not specify the more fundamental matters in which changes are required, and I will leave it to listeners to decide whether, while more weighty matters are adjusted, they would appreciate relief from the risk of poverty in the midst of plenty.

It is, however, my belief that I call for the virtual abolition of banking: I should be interested to know the authority for this statement and also for the statement that I am prone to exaggerate the increase in man's powers of production. There is a suggestion, I think, that I am by this suggestion the money profit of production thence made by banks has never done so because I do not regard the matter as important. I regard the money system as properly nothing but a ticket system, and if banks or even bankers actually used their share of ticket power in production there would be less room for criticism. They cannot do this, and consequently are driven to finance unsuitable products. Mr. Robertson suggests that money which is required by its use in purchasing consumable goods is bogus money. I should venture to tell you absolutely all money for purchasing consumable goods is in fact retired, together with a good deal used in purchasing non-consumable goods. The former is correct, but the latter is not.

My own feelings as to the real divergence between the orthodox economist and the engineer is that the orthodox economist cannot see any difference between the single stage production of two thousand years ago and the present power production system, and cannot quite make up his mind as to whether the money system is a system of government or an accounting system.

Dennis Robertson

I'm afraid Major Douglas feels a little aggrieved that in commenting on his proposals I have felt obliged to go outside his rather vague opening statement here, and to draw also upon the more definite accounts which he has given of his theory in his published writings. I hope he has had to do that. I have said already, his scheme must be judged, not as one among many emergency devices for increasing purchasing power in depression, but as the logical outcome of a peculiar theory about the existence of a chronic gap between costs and prices, and unless you had the broad outlines of that theory brought before your minds, it would not have been fair to ask you to form an opinion about the practical implement on the practical examples which grow out of it. I hope that those who have read Major Douglas works will agree that I stated that theory, in the few minutes at my disposal, as clearly as it can be stated. It cannot be stated perfectly clearly, because it contains a fundamental modulus, and because it is impossible to pin Major Douglas down to an exact statement as to what happens to the costs or charges which, according to him, are raised up by accountants in their books, but are never distributed as incomes to any individual. I am very sorry, though I realise that the time at his disposal was very short, that he did not think it worth while having a shot at answering even one of the alternate questions, which I assure you are the essence of the whole matter.

My reason for suspecting that Major Douglas exaggerates the increase in man's powers of production is that, if he did not, he would see that the continuous flushing out of money on the scale which he proposes would be bound to take up the slack which at the present moment admittedly exists in the shape of unused labour power and plant working below capacity, and generate a tremendous inflation. The only thing which could prevent this would be if the money were issued directly to producers in consideration of a reduction of prices, and were in some way sterilised so that the producers could make no use of them. I have said already that case is on, and the idea of sterilising the money is inexpressibly unacceptable, and the scheme would never come into operation.

I don’t want to suggest that Major Douglas thinks that bankers and bank shareholders get excessive profits, though I should be in the jest should he think so. He did. But his view of the banking system as such, through no fault of those who operate it, is a public nuisance, so that any profits made by its operation should be reduced. And if his scheme really enabled producers to obtain, without recourse to the banks, all the money they need to meet all their costs, except direct wage and salary payments, banking would become so nearly superfluous that I do not think the phrase the used, "the virtual abolition of banking as we know it", is too strong.

When I heard Major Douglas declare that if his proposals were adopted poverty and the fear of poverty would disappear for ever from this country, I felt as sorry as I should if I heard somebody who set up as a medical expert make the same claim about disease. For I believe that his assertion that the difficulties of the world are in essence mere book-keeping difficulties, which he knows how to solve, has done more to take up the slack and ideas raising false hopes in the breasts of many sincere and well-intentioned people.

Books and Authors

Peacemakers at Versailles


Some Memories of the Peace Conference. By Colonel R. H. Beadon. Lincoln Williams. 12s. 6d.

Mr. Nicolson's book is the best study of the Peace Conference which has appeared, and, like him, I think I have read them. The Conference met at the psychological moment of juncture of two completely antithetical waves of public opinion, that of unremitting against Germany and that of international pacifism. The result of this strange amalgam was the Treaty of Versailles, wry-nicked at the root and wry-nicked at the top, from strange parentage. Mr. Nicolson recalls the hopes and fears which so many felt at that time, and in his chronicle there is something of the gradual vanishing of the hopes and realisation of the fears. In the first part of the book the author puts the Conference, as it were, on the dissecting table, and analyses the causes of its failure, some avoidable, some inevitable. The analysis is brilliant and lucid, shot through with satire. The whole book is a study in red-herring, and as such the system of 'open covenants secretly arrived at' is preferable. Mr. Nicolson's diary of the Peace Conference, which forms the second part of the book, is printed, he assures us, because 'in it was the atmosphere which reflected the very atmosphere which prevailed at the Conference and is neither real, nor false, nor good, nor bad, nor great, nor small; as the system of "open covenants secretly arrived at" is preferable. Mr. Nicolson's diary of the Peace Conference, which forms the second part of the book, is printed, he assures us, because 'in it reflects the very atmosphere which prevailed at the Conference and is neither real, nor false, nor good, nor bad, nor great, nor small; as the system of 'open covenants secretly arrived at' is preferable. Mr. Nicolson's 'Diversions' during the Conference, his 'Peregrinations' on various missions, and his work later with that very "hush-hush" body, the Conference of Ambassadors, the legal executors of the Treaties of Peace. The author has some excellent stories that give point to Mr. Nicolson's fog-theory, which Colonel Beadon confirms.

John W. Wheeler-Bennett