PROCEEDINGS

(REVISED)

OF THE

SELECT STANDING COMMITTEE ON BANKING AND COMMERCE

OF THE

HOUSE OF COMMONS

ON

BILL No. 83, AN ACT RESPECTING BANKS AND BANKING

AND ON THE

RESOLUTION OF MR. IRVINE, M.P., *re* BASIS, FUNCTION AND CONTROL OF FINANCIAL CREDIT, ETC.

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EXCERPTS RELATING TO THE COMMITTEE'S
EXAMINATION OF
MAJOR CLIFFORD HUGH DOUGLAS
From April 24 to May3, 1923

SEVENTH REPORT

HOUSE OF COMMONS, June 14, 1923.

The Select Standing Committee on Banking and Commerce beg leave to present the Seventh Report of the said Committee, which is as follows:—

Your Committee have had under consideration Bill No. 83, An Act respecting Banks and Banking, and have agreed to report the same with amendments.

Your Committee also submit herewith their minutes of proceedings and evidence, and recommend that the same be printed in blue-book form and as an appendix to the Journals of the House.

All which is respectfully submitted.

A. K. MACLEAN, Chairman.

EIGHTH REPORT

HOUSE OF COMMONS, June 20, 1923.

The Select Standing Committee on Banking and Commerce beg leave to present the Eighth Report of the said Committee, which is as follows:—

Your Committee, in obedience to the Order of the House of March 9, 1923, have had under consideration the question of investigating the basis, the function and the control of financial credit, and the relation of credit to the industrial problems; and in connection therewith have held several meetings and examined the following witnesses, viz:—Messrs. Bevington, Douglas, Fisher, and others, but have not been able to complete their inquiry into the matters covered by the Order of Reference.

Your Committee respectfully recommend that a further reference be made at the next session of Parliament on the matters referred to in the said Order of Reference.

Your Committee beg to submit printed copy of their proceedings on such reference, and all documents submitted and not contained in the proceedings.

All which is respectfully submitted.

A. K. MACLEAN, Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, March 8, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the Chair, and Messieurs

Benoit,	Hanson,	Robichaud,
Black (*Yukon*),	Hudson,	Robitaille,
Cahill,	Humphrey,	Ryckman,
Carmichael,	Irvine,	St. Pere,
Carruthers,	Jelliff,	Shaw,
Casgrain,	Johnston (*Last Mountain*),	Sinclair (*Queens, P.E.I.*),
Chaplin,	Kellner,	Speakman,
Chevrier,	Ladner,	Stevens,
Coote,	Mackinnon,	Stork,
Desaulniers,	Macphail (Miss),	Tobin,
Drayton (Sir Henry),	McQuarrie,	Power,
Elliott (*Dundas*),	Marler,	Woods,
Elliott (*Waterloo*),	Maybee,	Woodsworth.
Fafard,	Papineau,	
Fielding,	Reed,	

After the consideration of the Private Bills on the Order Paper—
Mr. Irvine made a brief statement indicating what the scope of the enquiry regarding the basis, etc., of credit should be. A general discussion followed.

The Chairman suggested that a sub-committee composed of Messrs. Irvine, Speakman, Drayton (Sir Henry), and Maclean (Halifax), be appointed to consider what witnesses should be called and to what extent the inquiry should go, the Chairman to confer with the Special Committee on Agricultural Conditions, so that overlapping will not occur. Agreed to.

The Committee then adjourned.

TUESDAY, March 13, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the Chair, and Messieurs

Baxter,	Good,	Morin,
Benoit,	Hanson,	Power,
Bird,	Hudson,	Reed,
Carmichael,	Irvine,	Robichaud,
Chaplin,	Johnston (*Last Mountain*),	Shaw,
Clark,	King (*Huron*),	Speakman,
Coote,	Ladner,	Stevens,
Drayton (Sir Henry),	Mackinnon,	Woods,
Elliott (*Dundas*),	Maclean (*York*),	Woodsworth.
Elliott (*Waterloo*),	Macphail (Miss),	
Fafard,	Mitchell,	

After the consideration of the Private Bills on the Order Paper—
The Chairman submitted the following from the sub-committee appointed at the previous meeting of the Committee:—

> "Your sub-committee upon Mr. Irvine's resolution on the Committee's order paper, convened on Friday last, together with Mr. McMaster, Chairman of the Special Committee appointed to inquire into agricultural conditions, one of the subjects coming within the purview of Mr. Irvine s resolution.
>
> "Your Committee, after consideration, are unanimously of the opinion that it is expedient that any parliamentary inquiry into the subject of rural credits should be left to the Special Committee on Agricultural conditions, and that the Committee on Banking and Commerce should abstain so far as is possible from any inquiry into this phase of the question of financial credits.
>
> "Your Committee also considered the matter of what witnesses might be called before your Committee in connection with Mr. Irvine's resolution. Mr. Irvine informed the Committee that his needs would be satisfied with the appearance of four witnesses, namely: Major Douglas, Henry Ford, H. S. Ross, of Montreal, and Mr. Bevington, of Alberta.
>
> "Your Committee agree that the two last-named should be readily afforded to Mr. Irvine. The first two mentioned persons are beyond the jurisdiction of your Committee, and at the moment cannot report definitely whether such persons will be available to your Committee.
>
> "Later, further witnesses should perhaps be called to express opinions to the Committee upon the evidence elicited from the earlier witnesses, but your Committee feel that this can best be determined later."

A. K. MACLEAN, Chairman.

AFTERNOON SITTING
TUESDAY, April 24th, 1923.

The Select Standing Committee on Banking and Commerce resumed at 4 p.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Order, please, gentlemen. Before we begin, I would like to reach a conclusion as to whether we shall meet this evening. Owing to a Government caucus to-morrow, we cannot have a meeting of the Committee Tomorrow morning. I think we should meet this evening, if that is the opinion of the Committee. Then, gentlemen, we shall meet to-night at 8.30.

[Mr. H. 0. Powell.]

Gentlemen, we are to be addressed this afternoon by Major Hugh Douglas of England, who has come out here to address us upon the resolution that was referred to this Committee for consideration by Parliament, the resolution being the one introduced by Mr. Irvine. Major Douglas may be known to quite a few members of the Committee, but perhaps I should say that in recent years he has been a close student of economics and has written and published two or three well known books upon economic subjects, finance, and financial credit. It has not been his life’s work; by profession he is an engineer, but in recent years he has given considerable thought and attention to the subjects which I have mentioned. I am sure we appreciate very much an opportunity of hearing Major Douglas, and I would ask him now to address the Committee. He will be under the guidance, at the start, of Mr. Irvine; later on, he may wish to address the Committee informally.

Major Douglas, will you please come forward.

MAJOR HUGH DOUGLAS, called.

By Mr. Irvine:

Q. Major Douglas, I have here a little booklet entitled, “Banks and Banking,” which was sent to the Members of Parliament with the compliments of the Bankers’ Association.

Mr. W. F. MACLEAN: Who wrote that?

By Mr. Irvine:

Q. You will have to ask the Bankers’ Association, it is O.K’d by them. This purports to set forth the function of credit and currency as it is at the present time. May 1 ask if you have read that pamphlet issued by the Bankers’ Association?—A. I have, sir.

Q. What is your opinion of it?—A. I think, sir, it is a very able, very carefully written presentation of the orthodox views on banking and finance and I would say that the whole of the case of banking and finance as it stands at the present time might be said to stand or fall by the correctness of the statements which are made in that small book.

Q. Being of such importance, then, in your opinion, would you be prepared to answer questions on its subject matter?—A. Yes, sir.

Q. On page 3 it is stated, for instance, that the intention is to deal broadly with the basis of credit. From your perusal of the pamphlet, what would you say is the idea of the Canadian Bankers’ Association of the ultimate basis of credit?—A. I read the book to which you refer, sir, very carefully, and I think it is not anywhere specifically stated what is the ultimate basis of credit, but I think it is quite fair to say that the whole implication of the book is to show that gold is the ultimate basis of credit.

Q. Would you agree with that?—A. I should disagree with it, wholly.

Q. Why.—A. I think it is erroneous in fact, in actual fact, and also erroneous and mischievous, to some extent, in intention.

Q. On what grounds do you say it is erroneous in fact, or why is it erroneous in fact?—A. I should say it is erroneous in fact because no one would expect gold in return for goods and services unless they were thoroughly well assured that they would be able to obtain goods and services in return for gold. Therefore it may be said that it is the belief which attaches to the gold and not the gold itself which is in that case the basis of credit.

Q. You said something about the intention. Why would you say it is unsatisfactory in intention?

Mr. McMASTER: Mr. Chairman, the acoustics in this room leave much to be desired. Would both the able advocate and the witness speak in a little clearer and more distinct voice?

[Major Hugh Douglas.]

The CHAIRMAN: Speak a little louder, Mr. Irvine, please.

By Mr. Irvine:

Q. I was asking Major Douglas why he said that the presentation of the case by the Bankers' Association was unsatisfactory in intention.

MR. McMASTER: In intention?

By Mr. Irvine:

Q. In intention?—A. As I understand it, it was why gold was the basis of credit.

Q. Yes, that is referring to the basis of credit as laid down by the Bankers' Association.—A. I think that the contention that gold is the basis of credit is unsatisfactory in intention, because the quantity of gold in the world bears no relation and can bear no relation to the possible production and demand and circulation of goods and services, and further, that when any real demand is made on gold to anything like the extent that the claims on gold exist, the amount of gold in the world has always proved itself to be wholly insufficient to meet these demands.

Q. You would have noticed, I presume, that the words "currency" and "credit" seem to occur interchangeably in this presentation. Would you agree with that?—A. I should say that all currency is credit, but all credit is not currency.

Q. On pages14 and 15 of this little book, under the heading, "Canadian Currency," occur the phrases "The primary essential of a currency is stability." "No currency has been kept stable that did not rest on a gold basis." What have you to say in that connection?—A. I do not agree with either statement. The primary essential of a currency is not stability, it is that whether stable or variable it shall provide for the maximum production and distribution of goods and services desired by the community. That refers to the first phrase. In regard to the second phrase, I should like. to point out that this booklet, either specifically—I think both specifically and generally—suggests that the United States has continuously been on what is called a gold basis, and therefore might be expected to confirm these statements which were made, and I have here a table which originated with the Federal Reserve Board of the United States, which gives the index numbers in the United States for 1921, 1922, and parts of 1923. That table I will put in as evidence, but I might just point out that, taking 100 as the index figure for 1913, the average index figure for 1921 was 148, the average index figure for 1922 was 157, and the average index figure for January of 1923 is 165, and for February is 166. If that is what is meant by stability of a currency, then I do not understand what the meaning of stability is.

By Mr. McMaster:

Q. Would the witness say what these index figures cover, all commodities?—A. I was giving the index figure for all commodities, but in the same table are the analyzed index figures. You would probably like to have this table in evidence.

WHOLESALE PRICES IN UNITED STATES
Federal Reserve Board Index

The index number of wholesale prices in the United States, compiled by the Federal Reserve Board for the purposed of International comparison, rose one point during February. Commodities entering into trade showed the greatest fluctuations during the month, both goods imported and goods exported rising seven points. Domestic goods showed no change. The groups, however, indicated that producers' goods rose in price and consumers' goods were still falling. The following are the index numbers (1913=100):—

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	Goods Produced	Goods Imported	Goods Exported	Raw Materials	Producers' Goods	Consumers' Goods	All Com-modities
1921 Average	148	103	136	141	142	160	148
1922 Average	154	123	157	166	139	157	157
1922							
February	143	110	142	145	127	133	146
June	138	124	163	167	141	164	161
July	162	128	165	177	143	163	165
August	162	127	162	181	144	156	165
September	161	128	157	181	147	154	164
October	161	135	163	179	150	156	165
November	160	137	173	177	150	156	164
December	160	133	174	177	149	157	164
1923							
January	163	139	180	182	150	156	165
February	162	146	187	182	156	151	166

The index number is compiled from 100 wholesale price quotations for representative commodities taken in the leading United States markets, weighted according to the importance of the commodity. Part of the quotations used are furnished by the Bureau of Labour Statistics, the rest are compiled from trade journals and private firms of recognized authority.

By Mr. Irvine:

Q. On page 17 of the pamphlet, the following statement is made: "The United States experienced in 1920 and 1921 a severe commercial depression, and the United States during that period held far more than its share of the world's gold. Not lack of money, but lack of confidence and inability to exchange commodities produced the prostration." What would you say in regard to that statement?—A. I should say that that statement was one instance of several instances of extremely careful wording of the statements which are made in this pamphlet. It is perfectly true that at that time the United States held most of the gold, but the commercial crisis did not occur to the United States, it occurred to the traders. The traders of the United States never held any of that gold, they merely held credits which were alleged to be created on the basis of that gold, and the commercial crisis to which Mr. Irvine refers was most unquestionably precipitated by the withdrawal of those credits.

Q. There is a chapter here on, "National Banks," dealing, I believe, with the Commonwealth Bank of Australia, from page 18 to page 22 inclusive. What do you think of the viewpoint as there set forth with regard to the national bank?—A. I think the intention of these pages might fairly be said to be to create the impression that the issue is between national banking, or state banking, the nationalization of banking and so forth, and private banking.

I should deny that that was the issue, and I should suggest that there is no essential difference between the Commonwealth Bank of Australia, which is the bank under discussion, and any private bank. It is only a question of administration, and the real point at issue is the beneficial ownership of the material with which both banks deal, and that is, public credit.

Q. I understood you to say that the nationalization of the bank or the banking system is not the issue. If that is not the issue, what is the issue in your opinion?—A. The issue, in my opinion, is the one which I have just stated; that is the fundamental issue, the beneficial ownership of credit.

Q. On page 24 of this same book occurs the statement:—"money cannot be loaned or wheat sold profitably below cost." Do you agree with that or what have you to say on that point?—A. I think that is a very interesting instance of what I might call the work of the orthodox financier—and mind you in saying that I trust it will be understood that in all references of this sort nothing offensive is intended. The orthodox method of looking at this matter regards money as a commodity to be bought and sold, and it looks at the

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whole problem of production and distribution solely in reference to the financial result which is produced. If the financial result is not satisfactory, then the operation from that viewpoint is not satisfactory. So far as regarding money as a commodity, it is to my mind exactly like carrying on a trade in railway tickets, using railway tickets themselves as a means for carrying on the trade, not buying and selling railway tickets in money, but buying and selling railway tickets in railway tickets. The effect of that is to entirely stultify any reasonable use of railway tickets as railway tickets.

Q. On the same page it is stated—.

Mr. McMASTER: I do not know whether we are permitted to ask questions, but I would like that point elucidated. It did not go through my head, that last explanation.

The CHAIRMAN: Oh yes, you can ask questions.

Mr. MCMASTER: Would the witness develop that? I could not see the analogy. Perhaps it was my fault, but I could not see it.

The WITNESS: Of course, entirely from my point of view, from our point. of view, money may be regarded as a ticket system. It is a method by which goods get over from the producing system to the consuming system. From our point of view money is a very unimportant or should be a very unimportant item in a system which comprises production, distribution and consumption. We feel very certain that the productive capacity is there. There seems to be a very general idea that the consumptive capacity is not met, and the thing which deals with the relation between consumption and production, is money. Now, if you deal with money itself as a commodity, and if you regard, let us say, a railway ticket, as being simply a limited form of money, which allocates a seat in a train to a specific person, you will see that if you begin to carry on a business in railway tickets using railway tickets as a means of settling for railway tickets, that is to say, if I carry on a business in which I endeavour to get two railway tickets for one railway ticket and never convert that into money, I would utterly stultify every attempt or I am utterly stultifying every attempt to make the tickets correspond to the transportation facility, and that is what I mean by saying that regarding money as a commodity makes it impossible to establish any relation between production and consumption.

By Mr. Cahill:

Q. How do you mean that money is used as a commodity?—A. It is admitted, I think, quite generally without further discussion that money is regarded as a commodity, because it is bought and sold, and rent, which we call interest, is paid for the use of it.

Q. It is rather a medium of exchange?—A. It is only a medium of exchange. It is also a commodity. People deal in money as they deal in wheat.

Q. In what way?—A. By making terms on which they will allow you to have the use of it. They deal in terms as a commodity when they make the terms by which they will exchange it. They deal in money as a commodity by every possible method that finance uses money at all, I think.

By Mr. Irvine:

Q. You would infer from the statement of this pamphlet, when it says that wheat or money cannot be loaned, or wheat cannot be sold below cost, that they consider money as a commodity?—A. I surely do.

Q. On the same page of this pamphlet it states "a national bank implies fiat money." What do you infer from that?—A. The only inference I can draw from a statement of that sort is, that in the mind of the writer of that

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statement there was a distinction between one sort of money and another sort of money. Now, I cannot myself see any distinction between any sort of money which performs the function of money. If any form of money satisfactorily performs the function of gold, then whatever that money may be, it is just as satisfactory for monetary purposes as gold, and I should state specifically in reply, that all money at the present time is to a very large extent fiat money.

By Mr. Marler:

Q. I did not catch the last part of the answer.—A. I should say in specific answer to the question, that all money at the present time is more or less fiat money in the sense that it bears no relation to the possibilities of production and consumption.

Q. It all has the same value?—A. No, I would not say that, because value is an almost impossible thing to define.

By the Chairman:

Q. Why should the currency of Germany not be quite so satisfactory in assisting in the production and distribution of goods as, say the currency of Great Britain at the present time?—A. Simply because the purchasing power of the same unit of it is less.

Q. Does not the question of redemption come in?—A. I do not think so.

Q. Not at all?—A. Not at all.

Mr. McMASTER: We did not hear that.

The CHAIRMAN: I was inquiring if the currency of Germany was any better or any worse than the currency of Great Britain, and he says he does not think so.

The WITNESS: What I really intended to say was that there is no fundamental difference, but the purchasing power of the unit of German currency is less than that of the unit of British currency.

By the Chairman:

Q. One is more stable than the other. What is the reason of that?—A. The reason of that is that Germany is issuing currency at the present time without any reference to prices, and is not making any definite relation between the credit issue and prices.

Prices tend to rise with the increase in the volume of the credit issue, but that is not an essential of credit issue.

By Mr. McMaster:

Q. That is to say if the German mark was issued in quantities, which were merely commensurate with the trade in Germany, the great inflation in prices would not occur?—A. No, if the German mark were issued in such a manner that prices could not rise in proportion to the German mark—by that I do not necessarily mean the fixation of prices—then the prime argument against inflation would disappear.

By Mr. Woodsworth:

Q. The value of gold is dependent more or less on the law of supply and demand. Is fiat money subject to the same law?—A. No.

Q. What is the law that regulates the value of fiat money?—A. The relation between prices and fiat money.

By the Chairman:

Q. The currency of Austria is more stable at the present moment than it was last year and preceding years. How is that brought about, Mr. Douglas? —A. I should very much like—and I am particularly interested that that ques-

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tion has been asked; it was unexpected and I do not know whether I have the exact reference that I wanted, because if I had it would save a certain amount of time.—The kronen in Austria has been for the moment stabilized in regard to its exchange rate in respect to other countries by heavily increasing taxation in Austria and bringing the budget nearer, though not yet, to what is called a "balanced budget." The result of that has been to create the most widespread wave of unemployment in Austria, to stir up a lot of political trouble in Austria, to precipitate the people of Austria from a condition of comparative prosperity in 1921, when the kronen was rising rapidly, in relation to other people, to a condition of great distress at present, and I should be very glad to have an opportunity of putting in, in regard to that, two extracts which I made only last night, although I have seen them for some time.

Q. In Austria they removed thousands of civil servants which were unnecessary. That would of course cause some unemployment. Would you approve of that? In fact, I think Austria agreed with the League of Nations, the Council of the League of Nations, to do that. Would the continuation of paper money have kept these unnecessary employees in the civil service?—A. I cannot see any possible argument which can be adduced for keeping unnecessary people employed anyway.

By Mr. Good:

Q. Just one question in connection with the stability of currency. I was rather surprised to hear the witness say, if I understood him right, that it was a comparatively immaterial matter whether or not a currency was stable. My idea of a stable currency is that it should be worth in commodity and services approximately the same or as nearly as possible, the same now as last year, and as next year, so that any obligations entered into between two parties may not change in the interval between the time they are entered into, and the time of settlement. I think perhaps the Committee would like some further elaboration on that point. I was not quite satisfied with the explanation. Possibly I misunderstood it.—A. That is a very important point, and I understand the confusion possibly which that statement might lead to at first. The point I wanted to bring out in making that statement was that whatever the maximum of production and distribution of goods and service, either to the limit of capacity or the limit of real demand,—whatever are the conditions of the currency to produce that condition, then that is the determining thing, not either the stability or the variability or anything else of the currency. The currency should be entirely subsidiary, whatever its movement one way or another may be, to whatever is necessary to meet the primary contention; that you would be able to produce and distribute either up to the limit of capacity or the limit of real demand, and currency should conform to that need irrespective of whether it is stable or whether it is not. I am not saying it should be stable or that it should not be stable. I am merely saying that that is not a primary necessity.

Q. Am I to understand, that if, for instance during a period of rising prices production was stimulated, distribution encouraged so that people were really better off that there would then be no ground for objecting to the increase in the prices?—A. If everybody was better off then I should agree, but under a condition of rising prices I find it very difficult to see how everybody could be better off.

Q. I was going to ask in that connection as to whether or not there would not be a fundamental injustice in the changing of the obligations, for instance, let me put it this way: I build a house this year, if that house is to be worth half as much next year it will probably prevent me building it now; if it is to be worth twice as much next year my effort to build it will be altogether unwise, it will be depending on conditions which I think must be unfortunate—what I

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mean is this, is there not a question of justice in the relationship between one party and another in entering into an obligation? Let me put it this way; supposing we would admit that a great many advantages come to a country during a period of inflation, are there not corresponding disadvantages? If so are the disadvantages less than the advantages, and therefore should we welcome the period of inflation? Are they more than the advantages? This seems to me an important question and I would like further light on it.—A. I think that there is a very important point involved in that, and it is a very difficult point to deal with shortly. I think that all these questions of justice in regard to commercial affairs arise out of a specific situation which renders them very important. I might perhaps be allowed to give an analogy of what I mean. If you had a party of men who were crossing the Sahara Desert and they only had a very limited quantity of water, it becomes a matter of very great importance and it becomes a really practical thing that you should distribute that water amongst them justly; but if you have the same party, we will say of ten men, crossing Lake Superior you do not waste very much time in discussing whether one of them has two or three more drops of water than the other fellow has; and I think that you will find you can deal with that situation very much better by taking the people out of the Sahara and putting them in a boat on Lake Superior than wasting time about the exact division of the drops of water.

Q. I see the point anyway in part. I hope I am not interrupting Mr. Irvine, but there is another question I should like to ask. I understood the witness to say, in commenting on the Australian Commonwealth Bank, that there was very little difference between a national bank and a private bank; I want to submit this to him and ask him for his opinion as to whether or not those who control currency or credit at the present time do not pretty well control industrial policy, and if that is so, whether it is not much better that industrial policy should be controlled by the people acting collectively through the state, whether we conceive that to be, in Canada, the Federal Government or Provincial Government or Municipal Governments or local societies, than it would be to have the control vested in a relatively few men? —A. I feel that answering this question I shall be outraging the atmosphere of the democratic House of Commons, but the question must be answered. I do not believe that the detailed administration of such things as industry, apart from general policy, can be administered by the people collectively. I do not think that the people collectively have any real control over the way their taxes are spent, I don't think they have very much control over the amount of taxes that is taken off them, and I do not see any reason to assume that they would be any more successful in collectively controlling such things as you suggest; but I do agree that the control of credit controls industrial policy.

By Mr. Woodsworth:

Q. I am afraid I did not understand what determines the value of fiat money, if not its quantity or its volume what does determine its value?—A. What it will buy.

Q. But. that is what we mean by the value, what it will buy; is it not the quantity that determines how much it will buy?—A. Not necessarily.

Q. Would you explain again what it is. We were speaking a few minutes ago about gold, originally gold was the standard, the volume of gold or quantity in circulation determined the value; gold was the measure of all things, that is that the other things rose or fell in accordance with the amount of gold; now, we have substituted for gold what you term fiat money?—A. That is not my term.

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Q. It was used by you a moment ago in answering that all money was more or less of the same character if it functioned in the same way?—A. Yes, including gold.

Q. My question was as to whether all money was not subject to the same laws that gold would be?—A. Only under the present financial system.

Q. If there is no fixing of prices or as long as our present system continues then all money is subject to the same laws of value that gold is?—A. Including gold.

Q. And then under those circumstances the amount of money in circulation has a direct relationship to prices?—A. Under the present financial system, yes.

By Mr. McMaster:

Q. May I ask a question, a hypothetical one? Let us suppose that the British Isles had no gold, no silver, but that the government issued let us say twenty million pounds to take care of the needs of the people; suppose the government without any increase in business increased that issue from twenty million to one hundred million pounds, would the witness think that prices would rise?—A. Under the present financial system, but not necessarily.

Q. What would determine the price in the first instance when the outstanding credit was twenty million pounds if it were not the relationship between the twenty million pounds and the services and goods which had to be transferred from person to person, would there be anything else to determine the prices except that relationship?—A. Yes, you can make anything determine the relationship depending upon what distribution of the goods and services to which the money refers, you desire.

Q. Is it your idea that it would not be the amount of outstanding credit face to face with the amount of goods and services, that that would not determine the price level in the country?—A. Not necessarily, need not.

Q. Would not that be one of the main contributing factors to determine the price level?—A. That is the very axiom of the present financial system that it is one of my objects to explode.

By Mr. Woodsworth:

Q. In saying that all money is much the same, supposing, as we had some years ago, a large issue of Victory Bonds, insofar as they function as money passing from hand to hand they would have the effect of increasing prices, of inflation?—A. Under the present type of financial system it is very probable they would, yes.

Mr. SHAW: I wanted to make a suggestion. It is very interesting indeed to chase these very little things to cover, but I would like personally to get a comprehensive survey, if we could, and then it would be much more easy, I know for myself, to follow the discussion subsequently, if we could get a comprehensive survey at the outset by the witness, and then subsequently question him in this way; I think we would be more instructed.

The CHAIRMAN: I think you are right. I think that is quite a proper remark, and I was hoping that Major Douglas would address the committee exposing to the committee his scheme of a substitute financial policy which he would like this country or the world to adopt.

Mr. IRVINE: For the present I was trying to get the opinion of Major

Douglas as a student of this question on the basis and function of credit as set forth by the Bankers' Association, and if you would permit I would like to continue with that investigation until we are through with it, and then Major Douglas may be called upon to state his own position.

[Major Hugh Douglas.]

Sir HENRY DRAYTON : I just suggest to my friend this, bearing in mind his own object, considering his brief, that he would make far better progress if we were to first hear the Major fully on his theory, and then having been seized of the theory we are in a very much better position to appreciate the force of his criticisms in connection with the different points that my friend now seeks to raise.

The CHAIRMAN: I think so.

Sir HENRY DRAYTON: I think very likely a whole lot of these questions would be entirely unnecessary. We would then know the basis of the Major's objection, and I think it would be better for the Major.

The WITNESS: If I might refer to Sir Henry Drayton, I should very much like to be allowed to bring out the differences between what you might call his statement and my statement first, if I might, and then the discussion of those differences can be sifted out from what is irrelevant to the general position, if that would suit Mr. Irvine also.

Mr. IRVINE: Yes; that, Mr. Chairman, is my policy in this regard. It may not be the best tactics, Sir Henry Drayton's tactics may be better, but I have selected this. On page 25 of the pamphlet which we have been examining occurs this question: "Are not the farmers aware that the loanable capital of the country is the savings of industry?" What is your opinion on that question? —A. I think that again is a really remarkable instance of extremely careful wording I should like Mr. Irvine to notice that the phrase is not "the loanable capital of the country is the savings of industry," but the phrase in the book is as he read it, "are not the farmers aware that the loanable capital of the country is the savings of industry?" You will notice the book does not say that they are but it says, are not the farmers aware that they are, which seems to me to be very clever, because the loanable savings are not the savings of industry. It is of course—

By the Chairman:

Q. What are they?—A. In the first place you cannot in the sense that the banks there mean it, loan capital. Loaning capital means loaning somebody a harvesting machine or something of that sort, which is not meant by this phrase. Capital has nothing to do with finance at all. What is loaned by the banks is practically fresh purchasing power. It is not the savings of industry, and it is a mortgage on future production.

Q. Does not the great portion of capital represent the savings of industry, and by industry I do not mean plant, manufacturing industry, I mean the industry of the individual?—A. No, I do not think that. I think as a matter of fact that this booklet possibly by accident admits that statement. I think I can possibly find the quotation in the book itself.

By Mr. Forrester:

Q. Would not that be truer in regard to Canada than England?—A. I could not actually answer it quantitatively; I do not know what the exact relation would be; but I should say broadly speaking. It is on page 47 of this booklet. "Nearly all loans are made by credits entered on the books of a bank or by cheques or by drafts or by acceptances; these pass into the general clearings of the community of which only the resulting balances are settled in money. Hence the mere plentifulness of money is only remotely connected with the supply of loanable funds"—that is the Banker's (should be s') own booklet.

By Mr. Irvine:

Q. That is inconsistent with the statement just made?—A. Yes; that is inconsistent with the statement just made.

[Major Hugh Douglas, j

Q. This booklet says "Decline in prices produced the shrinkage in loans and circulation, not vice versa. Did the reduction in Canadian bank loans cause the price of wheat to fall in Liverpool?"—A. There is no doubt whatever that the reduction in Canadian Bank loans did cause the price of wheat to fall in Liverpool; it was one of its objects. The result of calling in the credits or refusing to issue further credits to carry over for some length of time or to cause everyone to throw all stocks of all descriptions on to the market, because they could no longer hold them up for the same or a higher price, the result of throwing those stocks in the market depressed prices, that is the answer.

Q. Continuing, I find the following:

> "That argument is founded upon the misconception that money and credit are the creation of government, when these are the product of industry, and the fallacy that currency emitted from a printing press derives value and stability from a government stamp and from no other source."

What have you to say in regard to that statement?—A. Well, I was very much impressed with that statement, because it is another instance of supremely careful wording, and I think shows the great importance which can be attached to this booklet, because such great care has been taken in its preparation. You will notice that it is not stated that money and credit are the creation of industry, it states that they are not the creation of government and they are the product of industry. It does not state that they are not the creation of government. Now, as a matter of fact, money and credit are neither the sole creation of government, industry, or of the government or industry, they are the joint creation of a stable government, a functioning industry and a consuming public, and if you take any one of those three out, there can be no such thing as public credit.

Q. In the chapter in this book entitled "A financial catechism," on page 28 I find this:

> "If paper currency printed and issued by Governments was always accepted at its face value, there would be no need for taxation."

What have you to say to that?—A. I should say that it was "A Daniel come to judgment." That is exactly what I should say—there would be no need for taxation. You would be able to provide for what we provide for now by taxation; you would be able to provide for it by a minute general rise in prices, prices however being very much lower than they are at the present time.

Mr. GOOD: I do not understand that remark, Mr. Chairman. I would like the witness to develop that a little bit, if I may interrupt.

The WITNESS: Well, suppose you have a general level of prices which we will call 100; without going into any theories on ranges of prices below cost, or anything like that, but suppose at the present time you have a general level of prices which we can refer to as 100, and by some method which it is not necessary to enter into at all you raise prices to a general level of 101, you are then putting a one per cent tax on everybody, and that is all you are doing. Now, if you start with a level of prices which is very much below 100, when you get to that level by some process or other, and having got it down to that level you raise it again a little bit, then the difference between what you had got it down to and what you have raised it up to is taxation, and it is equal with any other form of taxation.

By Mr. McMaster:

Q. If you just go up another one per cent next year, if you go up higher and higher every year by one per cent, you would get a final addition to the

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price level?—A. I am not putting forward any form or scheme in what I am saying, I am merely giving you a hypothetical illustration of the fact that a slight rise in price levels constitutes a general taxation of the public.

By Mr. Irvine:

Q. To continue:

> "At various times and in various countries the notion has prevailed that the government stamp on a piece of paper made money of the paper; when the fact is that only the ready facility to exchange the paper token into gold gives it the quality of stability in value and makes of it real money."

Have you any statement to make in regard to that?—A. What page is that on? a

Q. That is on page 29.—A. Well, I should say that the point which is involved in that question is absolutely vital. Gold as a commodity has one of the lowest possible use values; it is very useful for stopping teeth, and it makes very good jewelry I suppose, and all that sort of thing, but its use value is clearly very low. Now, the only reason which will induce people to take gold is that they are assured, or think they are assured that they can get something for the gold. They do not want the gold as a primary object, it is only an intermediate object, and if you can satisfactorily substitute something for the gold, then gold loses all value except, as I say, for stopping teeth and so forth. It is absolutely necessary in that connection to realize that to get a satisfactory money system, you must use money as a mechanism of exchange, of goods and service, not a mechanism of one sort of currency for another sort of currency. The whole thing is a question of distributing, exchanging and dealing with goods and services.

By Mr. Good:

Q. In that connection, what is your opinion, if you have one, of the effect or the probable effect of demonetizing gold, the effect upon its value I mean? —A. Well, it would depend entirely upon the method you adopted for demonetizing gold. That would involve questions of the control of industry, whether you wanted to go on mining gold; if you wanted to go on mining gold, I would say that gold would begin to take a value which represented its cost of production.

Q. Well, is it not true that the cost of producing gold is very high, and that it approximates its present monetary value?—A. Its commodity value. That may be so. I should think it very probably is so, and I should think that if gold were demonetized probably the demand for gold might or might not be affected one way or the other, it would depend upon what uses could be found for gold as a commodity.

By Mr. Irvine:

Q. To continue

> "If the Government monopolized the issue of currency, would the supply not be more abundant?"

That question is asked in this Financial Catechism. Have you an answer to that question?—A. That is on page 29 I think. It goes on to say "Not of a sound currency." Well, I think that is perfectly true, that the supply would not necessarily be more abundant. The fact is that currency and credit issued by a private bank or a Government bank is quite equivalent in its use; it does not make any difference whether it is issued by a Government bank or a private bank and the monopolization of the issue of credit and currency by a Government bank would not *per se*, would not of itself affect the quantity of it necessarily in use.

[Major Hugh Douglas.]

Q. Another question propounded in this catechism is this:—

> "If the Government loaned $500,000,000 to the farmers of Canada in the form of Dominion notes would not trade become active and people generally more prosperous from the circulation of so much currency?"

The answer goes on to say:—

> "Not at all. In the first place, if the Government went into the banking business, it could not limit loans to any particular class. All sorts and conditions of people would want to borrow and the Government could not discriminate."

Have you any opinion to offer upon that question?—A. I would say as a matter of business that that is exactly what has happened in Germany. They have had the issue of large blocks of credit, which functioned as purchasing power, because there is a time lag between prices and the issue of this credit, and because of that lag and because of the temporary increase of purchasing power which was provided in that way, there has been a tremendous accession of prosperity in Germany, from the economic viewpoint, that is to say, that up to within a few months ago Germany was economically far more prosperous than probably any other country, that is to say, she had very few unemployed.

By Mr. McMaster:

Q. Will you explain the difference between economical prosperity and the ordinary common garden variety of prosperity?—A. I will. Economical prosperity, as I use it in that sense, means that you have your production system functioning at a furious rate, but it does not imply, as I was using the phrase, that that condition is a condition of any continuing description or stability, but for the moment the machinery is going around very fast indeed.

Q. On the principle of a squirrel in a cage?—A. Not at all. The actual production of goods and services in Germany during let us say 1922 was probably far in excess of the production in any area of Germany either before or since the war.

Q. But their imports were very considerably greater than their exports, if I remember their figures correctly?—A. Only in money, not in actual goods.

Mr. MARLER: Mr. Chairman, what result are we trying to arrive at? We are touching a lot of very high spots. What is the result?

Mr. IRVINE: It is very possible, Mr. Chairman, that we may never reach any result. That will depend largely upon the Committee and the individuals in the Committee. If I may state the motive of the inquiry in this regard it is this, that we have here set forth the interpretation of the present currency and credit system now in vogue, by the Bankers' Association, who have control of that currency system. I am trying to inquire into what it is to us, if they can state the case thoroughly, if they can give us an assurance that this thing is going to continue, if it is founded upon a sound basis; if it is founded upon a safe basis we will go forward with new proposals, and if we can prove that they have not stated their case fairly, then there will be another proposal. I think my friend will see the reason for that procedure.

I think, Mr. Chairman, that if my friend will read the pamphlet he will find that we are taking it up pretty thoroughly. I am not taking every word of it, but I am taking the principal parts of it. Has he any objection to the parts that have been taken?

Mr. MARLER: Not at all.

Mr. IRVINE: Perhaps it will appear a little later, if it is not obvious now, what we are trying to get at.

[Major Hugh Douglas.]

Hon. Mr. STEVENS: Before the witness leaves that point, Mr. Chairman, may I interject a question?

The CHAIRMAN: Yes.

By Hon. Mr. Stevens:

Q. In connection with your answer regarding the situation in Germany, you described the acceleration of industry. In your opinion would part of that—I do not say all of it, but a measurable part of it—would be caused by the fact that the German people prefer to hold their wealth, if you like to call it so, in goods rather than in a currency which was depreciating daily at a very rapid rate, that is, to-day a man would receive for wages say 10,000 marks, but fearing that the market would depreciate to-morrow, he would hasten out and buy some goods with his wages and in that way create an artificial demand for the goods? My question may be a little involved.—A. I agree thoroughly with you. That is always a feature of expansion; that is always a feature in a matter of rising prices of any sort.

By Mr. McMaster:

Q. But it must come to an end some day?—A. Yes, but it will keep on as long as prices continue to rise.

By Hon. Mr. Stevens:

Q. I would like to ask one further question at this point, and it is this; taking the German situation again, based as it is upon an issue of all its currency on the national demand, where do you anticipate the process must end that has been going on in Germany for the past three or four years?—A. Well, I anticipate that it must end, I think, just about now or thereabouts. Take the present level of prices in Germany, and following that on to the end there is bound to be a great economic slump in Germany. That is to say a huge wave of unemployment and all the concomitants of that. And in saying that I am simply taking the situation in Germany as it is and as it was without offering any opinion on the form in which the inflation took place.

By Mr. Irvine:

Q. Major Douglas, have you any remarks to make on the subject matters contained in pages 32 and 33 of this book? I will summarize it if you wish?—A. If you will, kindly, yes.

Q. For instance, they go on to ask:—

> "Then there is no advantage in restricting the issue of currency to Governments?
>
> "Absolutely none when the currency is on a gold basis."

Further they say:—

> "A man's labour, or his crop, is always good value" and so forth.

Then they ask:—

> "What is there to prevent the banks making that unlimited issue of their notes?"

They answer:—

> "The law. Banks are permitted to issue notes only to the amount of their paid up capital, except during the period of crop movement, when this limit can be exceeded in order that farmers may find ready sale for their products."

That is page 32. Then on the next page they ask this:—

> "But if the currency depreciates fifty per cent, will not the farmer receive twice as much for his grain, his cattle, his fruit, butter and cheese?"

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And in answer then they say:—

> "Yes; but what will that benefit him, since he must pay twice as much for everything he buys including wages of his farm hands?"

And so forth. Do you recall that?—A. Yes, I recall those passages. I remember the impression they produced on me, and that was that there was a continuous insistence on the word "currency" there as if currency was the only form of circulating medium which was employed in connection with financial transactions. Currency one way or another has comparatively little to do with it. The relation of currency to the whole financial circulating media is probably not greater than one-fifteenth or one-sixteenth and therefore all those remarks which are made in regard to currency have comparatively little bearing on the question, unless you also apply them to such things as credit documents, bills of exchange and so forth.

Q. Would this not imply a contradiction of the statement which was made on page 27, where it is said:—

> "The decline in prices produced the shrinkage in loans and circulation."

Whereas in this case they admit seemingly that the increase of currency would produce a corresponding increase in prices?—A. They suggest that the increase of currency would produce a corresponding increase of prices undoubtedly and that would only be true, as I have just said, if the total volume of currency, loans in operation, cheques, bills of exchange and so forth, were increased, and it is difficult or impossible to answer that unless one knows in a specific case what is the relation of the amount of currency to the total circulating medium.

Q. Then in a chapter given us here on "Noteholders and depositors" do you recall, Major Douglas, the general statement on that question by the writer of this book?—A. Yes.

Q. And have you any remarks to make on his position there?—A. That is I think pages 34, 35 and 36, isn't it?

Q. Yes?—A. Well the impression which was created on my mind was this.

The CHAIRMAN: I think it would be well to intimate to the Committee what they contain, so that the answer will be more intelligible. You are not summarizing are you?

By Mr. Irvine:

Q. No. This is a chapter on Noteholders and depositors. In the first place it says:

> "The banks were required to establish redemption offices in all

> the Provinces, where the noteholders could convert currency into coin, with the result that from the time this facility of conversion was afforded, no one desired to make the exchange, and thereafter banknotes passed current at face value throughout the Dominion. There was, however, still to be overcome the discount on the notes of an insolvent bank. It is true that experience had proved that in the long run these notes were redeemed."

Then further on:

> "Parliament, therefore, provided in the 1891 revision of the Bank Act for the creation of a redemption fund to retire the notes of a bank becoming insolvent. This fund, which is held by the Finance Department, is made up from the contribution by all the chartered banks of five per cent of their circulation, and now amounts to $6,442,000."

That is the subject matter of those pages.—A. Well what struck me about it was that while the banks specifically explain that banknotes are issued by

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themselves and represent by implication and almost by admission not only new purchasing power in themselves, but the basis for credits and loans, which are still further purchasing power, while they admit and explain that, they go almost out of their way in this booklet to explain how the public credit, not the banks' personal credit, but the public's credit is committed to the acceptance of these notes and loans. That seems to me to be interesting and significant because it is practically an admission that the public credit is necessary to the functioning of the system at all.

Q. Then dealing with the depositors and the protection of those depositors, this statement is made:

> "He has the protection of the assets of the bank, and of the double liability of shareholders; and he has the protection of prudent investment of his money by bank managers, which latter protection experience proves to be reliable in the main and very rarely deceptive."

Have you any remark to make on that statement ?—A. Yes. I think that that is another instance of the working of the financial mind; the orthodox financial mind again. What is meant there is, financially prudent. That is to say that the bank managers, quite properly as things are at present—there is no personal implication about any of these things—makes use of the funds over which he has control, being guided in his use of those funds by the financial result which will accrue, and when you have an alternative between a thing which is desirable and a thing which will pay, then you have the use of the banks' and the public's credit always, invariably, in favour of the things that will pay.

Now I think I might perhaps be allowed to give a sort of instance of that, a hypothetical instance, to make clear what I mean. Supposing you had a small village in which you have the old fashioned type of private bank. It will be very probable that most of the smaller houses in that village would be mortgaged, to the bank. Now supposing the housing in that village became too small for the requirements of the population. The rents of those houses would tend to rise and therefore the security of that banker in regard to the mortgages would improve. Supposing at this point someone came along and said: "Rents are getting high and housing is getting scarce; if you will lend me $10,000 or $100,000 I will put up a number of houses, which will bring rents down one half, and further than that will induce people to move out of the older houses into my newer houses." The banker would at once, naturally and properly say: "But in that case you destroy my security for the mortgages which I already have on the existing houses; but if you will bring me a scheme which will put rents up and therefore increase the value of my mortgages, I shall be much more indebted to you."

By Mr. Woodsworth:

Q. Then the principles of sound banking, from the standpoint of the bankers, do not always work out in the interest of the community at large?—A. Most unquestionably not.

By Mr. McMaster:

Q. But in your hypothetical case, Major Douglas, would not the builder of the new houses in the ordinary course give a mortgage over those as well to the bank and would not the bank find itself, after it had given this new loan on the security of the new houses—even with the old mortgages on the old houses perhaps reduced in value—but with the new mortgages on the new houses to more than counterbalance that? If there is a greater value created and if the bank keeps its mortgage on the old and on the new value I cannot

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see how the bank's position would be made worse.—A. Well, I think it is practically admitted, and in saying this again I wish expressly to dissociate myself from any suggestion of any sort of animus.

Q. As a matter of fact our ordinary banks do not lend money on real estate, so this is purely hypothetical.—A. They do not lend money on real estate because it is not good business, but it might be extremely valuable.

Q. No, it is not allowed by law and they do not think it is good business.—A. I see. Well, to return to what I was saying. Modern business is practically based on the creation of a scarcity of value. The whole efforts of general business communities are to be able to control prices to such an extent that you get the maximum price for the minimum delivery. Taking it collectively that is the basis of the whole thing, and is, according to the rules of the game, perfectly legitimate. Your object in business at the present time is to make money. It is not to deliver goods. The delivery of goods is incidental to the making of money, and if you can deliver fewer goods for more money then that is sound business, and the banker is a sound business man.

By Mr. Stevens:

Q. Do you suggest, Major, that as in your hypothetical case, the village bank controls the situation, that the banking system of this country controls the situation to the same degree in Canada?—A. I should be sorry to be drawn into an expression of opinion about Canada, but I have no doubt about Great Britain.

Q. Let us put it this way, you might as well make your answer direct, we are not thin skinned about it.—A. Well I should think it highly probable then.

Q. Then how would you explain this fact, in addition to the banking powers in Canada we have other institutions such as the large insurance companies, the trust and loan companies, private individuals by the thousand who loan on mortgages, long-time loans, are they not competitors with the banks in just exactly such demands as you raise in your hypothetical case? Therefore to the extent that they are competitors—measured by the quantity of their loans by the way—are they not an off-set to what you call the monopoly of the bank?—A. I think so undoubtedly, but I feel sure that although the process of monopolization is not yet complete, give it a little time and it will be.

Q. One other question in that connection. Taking your hypothetical case as applied to a nation, if the security is increased because of the law of supply and demand to which you refer, and the value of the money increased, would that not induce those outside the bank who have money, to administer it directly if they could do so, at a higher rate of interest than that allowed by the bank for the depositing of it in the bank.—A. I am not quite sure that I have the whole value of that question, but if I answer it wrongly perhaps you will correct me. The deposits of money in a bank are only a smoke screen for the major operations of the bank. If the public could not see that a certain amount of money went into a bank, they would not believe that it was possible for any considerable amount of money to come out of it. But the bank's business is a loss in respect of its deposits, and only part of it in respect of its disbursements. It has to carry on a certain amount of business at a loss in order to form a screen for the very much larger amount of business which it carries on at a profit, but it would be perfectly possible for a modern banking business to function exactly as it does at the present time without any deposits.

By Mr. McMaster:

Q. So they pay three per cent and invite the public to deposit by advertisements just to get a smoke screen?—A. I should say that.

[Major Hugh Douglas.]

Q. Tell us how a bank could function without deposits. It has a small nominal capital, but it has no deposits. Will you just carry us through the stage of that operation?—A. It is really very simple. If a bank could issue a draft for any amount, a banker's draft for any amount, which would always be accepted as money and would never be asked for in the form of legal tender—

Q. Suppose I were going to London and I wanted to buy a draft on London, would I never be asked for the money?—A. They probably would ask, but I say under certain circumstances.

Q. If a bank did not have any deposits or any capital, how would they pay that? How would they pay? For instance the London and Midland Bank, say.—A. The only liability of a bank is to pay legal tender on demand. If there is no demand for legal tender, if its draft is always accepted without changing it into anything else, or if it were in the position of being able to issue $1 cheques, which passed from hand to hand as $1 notes, then just so long as that hypothetical state of mind exists, I mean it could not exist, because it is not practical, but just so long as it existed, that bank could carry on a flourishing business without having any deposits. In other words, it would be creating its own currency and these would be claims on goods. It would not be paying these claims on goods.

Q. When you say a bank could carry on business without any deposits and practically without any capital, is not that putting it in a pretty extreme way?—A. I do not say that it could in the sense that it is a practical proposition, but I say that it might.

Q. If everybody believed it could be done?—A. If everybody believed it could be done.

Q. That is to say, banking might be based on a state of mind, and not on deposits?—A. I should say banking is based on a state of mind at the present time.

By Mr. Stevens:

Q. Do you think this case that you mention is within the realm of possibility in practical business?—A. All I can say is that the British clearing house deposits during 1922 showed that only .7 of 100 per cent of the business of the country was done in legal tender.

By Mr. Spencer:

Q. I would like to ask Major Douglas if he considers that all loans create deposits to an equal amount?—A. I do.

By Mr. Hughes:

Q. I want to come back to that hypothetical village.

Some hon. MEMBERS: To buy a house?

By Mr. Hughes:

Q. The hypothetical case, and my intelligence is very limited. I think there is incorrect reasoning in that. I think your statement was that you pictured a village where there were more people than houses, where there was a scarcity of houses, and that the bank in that particular case held a mortgage on each house; the houses were therefore in demand. There was a demand for more houses than were at the time available. Then you stated that the bank would refuse to loan money to build more houses, because rents would fall?—A. Yes.

Q. That is where I think the reasoning is incorrect. If there were more demand there would be people for the new houses. Rents would not fall if there were a lot more houses to build than there was a demand for. I think that is correct. The effect of the bank acting in that way would be not to increase rents, but to drive people away or prevent the growth of that village, and

applying that to the nation it would prevent the growth of the nation and retard the development of the country, and I cannot for the life of me see how a bank would benefit by that. My opinion is that the bank would benefit more by the general growth of the country, by the growth of the village, by the building of houses, if there were a demand for them, and proceeding in that way with everything: else, with every other activity. Am I correct in that reasoning?—A. Of course, you understand when I give a hypothetical case of that sort, it is very much of an outline, but if you would like me to go a little further I will say this. Let us imagine there is a continuous improvement in houses, the type of house improving by the aid of invention, and so forth all the time. Now, you have a 1910 type of house. I am a banker. I hold a mortgage on your house, and somebody with a 1920 type of house comes along to me and says: "look here, I want to build a 1920 type of house and put this fellow out of business and attract his tenants from his 1910 type of house to a 1920 type of house." Well, I do not think there is very much doubt that I should reply according to the tenets of the game, because I hold a mortgage on his 1910 type of house; and if you provide this fellow with a better type of house he will not be the tenant of that house. Now his house is gone.

Mr. HUGHES: I think it is not what is done.

Mr. STEVENS: Not in Prince Edward Island.

Mr. HUGHES: No, nor anywhere else in Canada.

By Mr. Irvine:

Q. The next chapter deals with depositors and shareholders, on page 38, and it is set forth in the form of a dialogue, between a student and a farmer. The student, I think, is the first to speak. He says "I see that you are discussing banking and currency at your United Farmers meeting, and it is a good thing to acquire knowledge of this subject, provided you get the right kind of knowledge." Have you any suggestion to make with regard to this statement? --A. I should presume the booklet was an example of the right kind of knowledge.

By Mr. Stevens:

Q. That would be a presumption, would it Major Douglas?—A. It would be a presumption from the point of motive only.

By Mr. Irvine:

Q. Turning over to the next chapter, which deals with the case of the farmers, the writer says "the remedy is not within the reach of banking. It must be sought otherwise." Are you in agreement with a statement of that kind?—A. Well, to a certain extent, I am in agreement with that statement. I think that it is the system which the bankers operate, which is at fault, and not the bankers, and I think that the bankers can only be put—and I use the word in a very general term, that is to say, the people who administer credit, *et cetera*—I think they can only be put in position to deal with that by an alteration in the system.

Mr. McMASTER: I did not catch the last words of the answer, and I did not catch the question.

Mr. IRVINE: The question is "the remedy is not within the reach of banking. It must be sought otherwise." I was asking if Major Douglas were in agreement with that statement.

Mr. McMASTER: The remedy for what?

By Mr. Irvine:

Q. The writer says "many farmers in the western provinces have made no money during the last two years, even from the bountiful crop of 1922 and they

[Major Hugh Douglas.]

are in debt as a consequence of having good crops. Therefore the remedy is not within the reach of banking. It must be sought otherwise."—A. My answer to that is that it was quite true that I do not think that the fault lies with the bankers as banks, that it lies in the system which the bankers operate and they can only be put in position to deal with that, using "banker" in a very broad term, or anybody who deals with credit,—they can only be put in position to deal with that as a result of certain alterations in the system.

By Mr. Maclean:

Q. There have to be banks and banking, but on another system?—A. Yes. As far as I am concerned, the same banks and the same bankers.

By Mr. Irvine:

Q. On page 43, arguing on that, that the farmer should not be allowed to have any more credit because "the money they lend (that is, the bankers) represents customers' deposits, which they must be ready at all times to pay on demand." Have you any remarks to make in that regard?—A. Yes. I think that that is yet another instance of the extraordinarily careful wording of this pamphlet. You see that that paragraph says—I have it written down here, "the money they lend represents customers' deposits." Represents customers' deposits. You will notice that it does not say that the banks lend customers' deposits. That is a very, very tricky and careful difference. It states carefully—loans and deposits are a reflection of it—but it does not state what is the fact, that the loan comes first, that it is the loan which creates the deposit, not the deposit which enables them to make the loan.

By Mr. McMaster:

Q. That unfortunately, is not always the case.—A. I will elaborate it to any extent you like, but I think if you will care to read Mr. McKenna's speech at the annual meeting of the London and Midland Joint Bank this year, I think he states that in so many words.

Q. Savings deposits do not represent banking.—A. No, but pure savings banks of course do not make any discernible difference.

Q. I mean to say these deposits in our ordinary banks do not really represent loans from the banks returned by the borrowers into the coffers of the banks as deposits?—A. I should very much question that statement, if I might be allowed to. They do in this way, that the manufacturer, as a rule, or let us generalize him by saying "the entrepreneur" borrows from the bank what you call an overdraft, or through the agency of a discounted bill or something of that sort, and he pays the money obtained in that way, which is really fresh purchasing power, new purchasing power—he pays that out to his employees, and that money comes back into the banks through the agency of the tradesmen with whom these employees deal, and in that way, swells the accounts of the tradesmen.

By Mr. Woodsworth:

Q. Would you say loans are based in any real sense on savings deposits?—A. They are only based in a very remote sense, to the extent that it is necessary for the bank always to bear in mind its ultimate legal liability to pay legal tender on demand; only to that extent are they based on deposits.

By the Chairman:

Q. They are secured by collateral as a rule in substantial amounts, there is property behind the loan is there not?—A. Yes, there is property existing.

By Mr. Stevens:

Q. There is an implied criticism of that; would you mind elaborating your criticism by pointing out what the evil nature of the system is; it is implied in all these answers?—A. I should not like to use the word evil; I am simply trying to bring out exactly how the system does work, and what are the results of it. I do not wish to attach any adjectives to it at all. The question is do these results happen, and if so, what are they?

By the Chairman:

Q. We must keep in mind that Major Douglas, while saying this system is no good, proposes to put something in its place, and we have not heard yet what that is, and we are at a disadvantage. Would you do away with the Canadian banking system?—A. Do you mean in regard to Canadian banks?

Q. Have you something that you think would suit better?—A. Do you mean would I do away with the Canadian banks?

Q. Yes?—A. No, certainly not; I think they are probably very good banks as far as I know; I would be very glad to have a large cheque on them; but I am going to elaborate this in answer to that question, if you like; what I mean is this, that over and above the sums which are in control of the individual depositors of a bank is always a very much larger expansible and contractable sum of new purchasing power, or non-tangible purchasing power which can be always exercised at any moment at the discretion of the banks, and that bears always a positive ratio to the actual deposits in the banks. However much the deposits in the banks may increase so long as the legal tender liability does not reach dangerous proportions, there is always a huge amount of purchasing power in excess of the individual depositor's purchasing power, which can if necessary be exercised by the banks, and the rules under which they exercise that purchasing power are not, as I see it, such rules as would naturally induce them to use that purchasing power in the interests of the general community; the interests of the general community and the interests of the banks in relation to building credit and purchasing power are not in one straight line.

By Mr. Woodsworth:

Q. One of the witnesses told us the other day that labour was one of the bases of credit, but that under the existing bank system it was impossible to use labour as security or to regard labour as security, hence there could be no advances made on labour by itself; would it be possible to have some other kind of a banking or financial system under which labour itself would function as security and advances could be made on potential labour?—A. I do not agree that either labour by itself or real capital by itself or any other component by itself is a proper basis for credit. It is exactly, if I might use an expression which will probably be familiar to anybody here, like taking a volt by itself or an ampere by itself in regard to electricity, or taking let us say a pound by itself without having a relation to a pound of something. Credit, as I see it, is a result of the combination of at least three things, and you cannot say that one of those three things has any credit by itself; you have to have all of the three at once, or there is no credit at all.

By Sir Henry Drayton:

Q. You were saying the banks had a vast reserve of purchasing power over and above the deposits; perhaps you would give us the details of that?—A. Well, it arises out of the boundaries of legal liability. Their legal liability is to pay cash on demand. Now, supposing that over a given area and over a given period of time they find that out of their total transactions the actual functioning of this demand on them is only one per cent—as I say, from the figures of

the British Clearing Houses during 1923 it was only 1.7 per cent;—therefore
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they can have in existence paper which has not any legal tender behind it to a very considerable amount in excess of the amount of legal tender that they would require if all the demands that exist were made on them at the same time; they can build up a pyramid of credit, any inverted pyramid of credit, on a small amount of legal tender, trading on the assumption that people will use paper in large transactions without ever requiring it to be changed into legal tender. That result is masked in the accounts of a bank by the fact that the loans create deposits, but that the deposits which are made are not deposits of legal tender in most cases; they are deposits of cheques, and therefore this question of the creation of this pyramid on a small base of legal tender is masked by the fact that apparently the deposits and the loans bear an inverse ratio to each other, but the fact is that the loans create the deposits.

Q. I want to see if I can understand—

The CHAIRMAN: I think you will understand it better at half past eight this evening.

The Committee adjourned until 8.30 p.m.

EVENING SITTING
April 24th, 1923.

The Select Standing Committee on Banking and Commerce resumed at 8.30 p.m., Hon. A. K. Maclean, the Chairman, presiding.

Major HUGH DOUGLAS, Examination continued.

The CHAIRMAN: Gentlemen, we will resume the proceedings.

Mr. McMASTER: Mr. Chairman, before we resume the proceedings, on behalf of a number of members of the Committee and myself, I would ask the catechist and the catechised to proceed in a different way. We would really like to have Major Douglas lay down in general terms what his scheme is, and then we will understand the import of the questions, and we will be able to understand the answers given in a better manner than we do now.

Mr. IRVINE: Mr. Chairman, I quite understand the impatience of the Committee to hear a concrete and detailed scheme proposed.

Mr. MCMASTER: I did not ask for a concrete or detailed scheme; what I asked for was the general lines of the scheme.

Mr. IRVINE: All right, you want the general lines. I have already intimated that the case which we are reviewing here and seeking to answer is the case of the bankers of Canada, upon which they are placing their claim to a charter for another ten years. First of all, I for one want to know whether their claim is justified, and I think that if you will follow the answers to the questions which I have asked the witness, you will discover that they are claims which are not justified. If the Committee are satisfied now that their claims are justified, I am willing to stop questioning on this line, and I will request Major Douglas to proceed on another line. But for the present, we must remove this Shibboleth that has been placed in our way; I think most of the Committee still believe that we have to redeem notes in gold, and that our system is on a sound basis. If the witness has not answered that, then show how your case stands. That is the business of this Committee. This is the method which we selected to present our case to the best possible advantage, and if our case falls down by our methods, that is our funeral. I do not see why the Committee should object to that. I am sorry if we are not meeting the requirements of the Committee, but I do not see why they should object.

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Hon. Mr. STEVENS: I want to take exception to the conclusions of Mr. Irvine that by asking a question and getting a given answer, the question is disposed of and that we are precluded from entering into a debate on those controversial points. I merely want to say, as a member of the Committee, that I am not prepared to accept every answer that has been given and placed on record either in criticism of this pamphlet or of any other, as the ultimate answer to the question. Surely the Committee is not proceeding with this important matter in such a manner as that. In support of Mr. McMaster, I wish to say that it does strike me that when we have a witness whose authority has been very widely proclaimed in matters of this kind, he should make a statement of what his general ideas are on this great financial problem. We have learned from a number of the answers he has given that he does not agree with the present system, but we do not know just why; nor do we know what he has in mind to replace it with. If we had something of that character, we could understand his answers, and appreciate his answers, better than we do at present.

Mr. McMASTER: I was just going to say, with all respect to Mr. Irvine, and with every desire to show the utmost courtesy and consideration toward the witness, that it seems to me that the views of the Chairman and the Committee should prevail as to the manner in which we propose to carry on this investigation. Just to bring the matter regularly before the Committee, I would move that Major Douglas be respectfully asked to place in broad and general lines before this Committee his ideas of the basis of credit.

Mr. IRVINE: That motion, I presume, is open to discussion.

The CHAIRMAN: Certainly.

Mr. IRVINE: I think, Mr. Chairman, that we ought to consider the case both from the point of view of the witness and of those who are interested more directly in this investigation, and allow those interested and the witness to proceed to give evidence in the best way possible, as they see it. I do not think that this Committee should lay down hard and fast lines as to the actual procedure of examining a witness who is giving evidence. With regard to the statement of Mr. Stevens, a few moments ago that he does not accept, or that the Committee does not accept, any answer, with that I certainly agree, but we are putting up a case, or rather we are trying to show the weakness of a case that has already been put up by the bankers. If that is not done of course we have failed. If that is done, in the opinion of the Committee, then bring on your best banker to show where we have made a mistake and then we will be able to advance a proposal or new principles. But I do not see that it would be of very much service to advance new principles when you are not satisfied that the one you know already is not faulty in some way or other.

Mr. GOOD: Speaking to the motion I think it might facilitate matters if the witness were to proceed with the rest of the pamphlet, if he so desires, in criticising the case of the bankers, without being questioned by Mr. Irvine, and then make a general statement. I do not think that at this stage it is just the proper thing to ask him for a detailed statement of his proposed remedy. That might be very difficult, but I must say that after listening this afternoon, I have come to the conclusion that a good deal of time might have been saved if the witness had been allowed to start and proceed by himself without catechising, but I do not think there has been anything particularly objectionable about it, but I do think that perhaps we have not had the case presented in as intelligent a form as we might have had in some other way.

Mr. RYCKMAN: I wish to say a word, if Mr. Irvine will allow me. His procedure has been to ask the witness certain questions, referring to page so

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and so, for such and such a statement, and to ask what his opinion was of that. And the opinion has been given, but that is not to say that the reasons have been given. If the reasons had been given we could judge of their value. Let us know what the proposition is, and then, take the time, if we will, and go over this book. But we are sitting here not knowing the direction of the questions. The witness has contradicted at some length statements made in that book from which Mr. Irvine read; but we do not know the measure of contradiction or what weight to give it. We are in a measure helpless, and will be in that recital until we know the faith that is in the witness himself.

The CHAIRMAN: What is the motion?

Mr. McMASTER: That Major Douglas be requested to give in broad and general outline his ideas of the basis of credit.

Mr. SPENCER: I understand that there are only about four more questions to ask, and then I believe that Major Douglas intended to give a broad outline of his views as Mr. McMaster suggested. As there are only four questions more, and we have followed this procedure so far, why not allow Major Douglas to answer the remaining questions as quickly as possible and then get down to the other procedure.

Some Hon. MEMBERS: Question.

The CHAIRMAN: I quite agree with the members of the Committee who take the ground that it is almost a waste of time questioning the witness along the line followed this afternoon. In answer to every question, he answered that this pamphlet reflected the orthodox view about finance. He said that to every question, and he will say so regarding all the rest. Of course, as has been said, it does not get us anywhere. I wish to point out this one thing further, not because it is especially applicable here, but in respect to the rest of our proceedings, that we are considering a resolution and we asked people to come here and express their views. If anybody asks Mr. Douglas a question, it does not follow that we accept what he states. It is not concurred in in any way at all. We simply ask persons to give their views, and the Committee, collectively and individually draw their own conclusions. However, the resolution before us is quite an academic one, and yet a practical one. It is not as easy to direct the inquiry as you would on a specified subject like the Bank Act that is Bill 83; and inasmuch as Mr. Irvine has just four more questions to ask, I think it would be better to let him finish. Mr. Irvine will be better satisfied and also those who are interested in this subject. Mr. Irvine will please put his questions as quickly as possible. Is it necessary that I put the question?

Some Hon. MEMBERS: Certainly.

The CHAIRMAN: Well, I suppose I must put the motion, but I think it would be better to let Mr. Irvine finish.

Mr. McMURRAY: If he is short, let us get on.

Mr. IRVINE: Yes, Mr. Chairman, we are nearly through.

Mr. RYCKMAN: Mr. Irvine, you have the advantage, you know what this theory is, you put the questions to him and get a categorical answer, and you know the theory and have the advantage, but I can tell you the majority of the Committee do not know it.

Mr. IRVINE: Mr. Chairman, I am quite in sympathy with the opinion expressed from that point of view, that perhaps if you have not read this pamphlet and considered it very carefully the answers given to the questions I have asked may not seem to be apropos, but I can assure you they are.

The CHAIRMAN: Mr. Irvine, that pamphlet is not before us at all. It has never been put in evidence, and, as chairman I do not know whether anybody has ever seen it except yourself. As chairman, I do not know, and I am not supposed to know; it is not before us.

Mr. McMASTER: Mr. Chairman, as you have allowed Mr. Irvine to proceed, instruct him to go on.

By Mr. Irvine:

Q. When the Committee rose, Major Douglas was answering this question, that the money they lend represents deposits which they must be ready at all times to pay on demand. He had finished answering that, and my next question deals with a statement which appears on page 44 of this pamphlet; "The position of Loan Companies and Insurance Companies is altogether different. Their liabilities are not payable on demand." Do you agree with that?—A. Yes, I agree with that statement, but I should say that loan companies and insurance companies are only dealers in collective credit, just as banks are.

Q. On the next page, 45, this statement appears: "Embarrassed farmers in Canada should not expect to lean still more heavily upon the chartered banks. They are not getting relief from that source in the United States. The Canadian banks have loaned in the three Western Provinces more than the sum total of the deposits received in those provinces." Have you any remarks to make on that?—A. Yes; the inference from that statement is that the banks are only dealing with their own credit, but the banks are, as a matter of fact, dealing in public credit in every case. There is no possibility of making any credit transaction of which the boundaries can be stated. Everybody is affected by them, and while I should agree that the banks should not, under the present conditions, be leaned on more heavily than they have been, I think that farming in particular is a case for the use of public credit.

By Hon. Mr. Stevens:

Q. Before you leave that point, I would like to ask this; has the witness a knowledge of the facts sufficient to warrant him in giving an opinion as to whether or not the banks have been giving sufficient credit to the farmers of Canada?—A. I should say that in general terms that can only be judged by the agreement of the farmers as to whether they are or are not sufficiently prosperous.

By Mr. Hanson:

Q. That is no answer.—A. I think it is an answer, sir, because what you have farming land and farmers for, if you like to put it that way, is to produce wheat and other things. If you cannot get an agreement with them that it is for them a practicable proposition to produce wheat and other things, you will not get the wheat and other things, and therefore it is a matter of vital importance that you should get their agreement that they are sufficiently prosperous.

By Hon. Mr. Stevens:

Q. What I asked, Major Douglas, was if you had accurate information of the amounts loaned upon which to base an opinion such as you have given here to-night?—A. I have the statements which are included in this pamphlet.

Q. That is not sufficient.—A. It is the banks' own statement.

Q. A reading of that statement such as presented there certainly is not sufficient for any intelligent person to express a very important decision

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upon—A. No; do you see, sir, as far as that is concerned, I am simply taking the case as presented by the Canadian Bankers Association. I have no opinion on the facts which may lie outside of that, that is all.

Q. That is the answer to my question?—A. Yes.

By Mr. Clark:

Q. Do you suggest that the banks have not loaned these three Western Provinces their fair share?—A. No, I made no suggestion at all about that. All I say is that there is a statement which Mr. Irvine has read in regard to the fact that the farmers should not lean very heavily on the chartered banks, and I agree with that as a general statement. I say that the banks are using public credit, and that the farmers probably require access to that public credit. That is my answer.

By the Chairman:

Q. What do you mean by saying the banks are using public credit, Major Douglas?—A. I mean that the whole of the claims on property and on goods and services which are issued by the banks rest for their validity on the public belief in these instruments, and the willingness of the public to validate them.

By Mr. Irvine:

Q. On page 46, under the caption, "Cheap Money and Plenty of It", this statement is made: "The dearness or cheapness of money must depend primarily upon the relation between the supply of loanable funds and the demand for the use of such funds." Do you agree with that statement?—A. I disagree with it, absolutely. I think that that statement is the central contention of the existing banking system, and when I say that I do hope that I am making it clear that I am criticising a system and not those who deal with that system. From our point of view, we say in regard to the views that I am putting forward now, we say that money is not a commodity, it is a ticket system. The supply of tickets, that is to say money, must depend on the available seating accommodation. That is to say, it must depend on the capacity of the production system to meet the claims made on it by the tickets, not on the ability of the ticket vendor to hold up the supply.

Q. On the next page, namely page 47, this statement is made: "Nearly all loans are made by credits entered on the books of a bank, or by cheques, or drafts, or acceptances, and these pass into the general clearings of the community, of which only the resulting balances are settled in money; Hence the mere plentifulness of money is only remotely connected with the supply of loanable funds." What do you think of that statement ?—A. I think that statement is not only correct, it is a full admission, (A) That banks and credit institutions control industry, and (B) by controlling industry and purchasing power they control distribution.

Hon. Mr. STEVENS: Just a minute, just to show, Mr. Chairman, the utter folly of this proceeding. The first of these two questions is simply the first part of the same proposition in this pamphlet, to which the witness answers in a positive negative; the second question is the second part of the same proposition in this pamphlet, to which he answers in the affirmative, or agrees with.

Mr. IRVINE: What is your question, or your inference?

Hon. Mr. STEVENS: My point is this; without taking responsibility for this pamphlet, it is positively absurd and I think unreasonable, to pick out a sentence or a part of a sentence and ask the witness's opinion on that, when immediately following is the explanation of that same sentence, in a little

different form. If you segregate the two they seem to have two different meanings; if you read them together, one is explanatory of the other

Mr. IRVINE: Will you read the ones that contradict each other?

Hon. Mr. STEVENS: "The dearness or cheapness of money must depend primarily upon the relation between the supply of loanable funds and the demand for the use of such funds. The term loanable funds is by no means restricted to actual money. Nearly all loans are made by credits entered on the books of a bank, or by cheques or drafts or acceptances, and these pass into the general clearings of the community, of which only the resulting balances are settled in money; Hence, the mere plentifulness of money is only remotely connected with the supply of loanable funds." That is one proposition presented in this pamphlet. My friend segregates this into two, to which the witness gives a categorical denial to one, absolutely no, he says. To the other one, he says, "I agree". Now, I want to submit that it is not fair to Major Douglas to ask him these questions separately; my honourable friend a moment ago said, or suggested to the Committee that these questions and answers are going to affect the whole question of the financial system of this country. Why proceed that way? It is a perfectly ludicrous proposition, in my estimation, to proceed that way.

Mr. McMASTER: Mr. Irvine has only one further question, I understand.

Mr. IRVINE: Mr. Chairman, I have no more questions with regard to this, but I think the objection of Mr. Stevens illustrates the point at issue very excellently. Here is a statement which ought to be taken together, and not separately, and yet one half of it condemns the other half of it.

Mr. McMASTER: In the opinion of the witness it does, but we have not finished yet, have we?

The CHAIRMAN: Go ahead, Mr. Irvine, if you are not through.

Mr. IRVINE: I believe there are two more questions, but I would like to ask the witness now to explain to us what this financial system which we have been dealing with has brought about in the industrial world, what is the situation today, as a step leading towards a new proposal?

Mr. MARLER: That is a very general question to ask, that will take a year to answer. Has this gentleman not some system that he is going to explain? Let us hear it, if he has.

The CHAIRMAN: I think Mr. Irvine's request is fair. He asks a general question of the witness, as to the effect of the present system, as to how the present financial system affects industry generally, and then I assume he will follow that up by some suggestion of another scheme.

Mr. CAHILL: I understood he would follow that up, Mr. Chairman, but I would like to know for sure; I do not want to waste my time here.

The CHAIRMAN: I think we can fairly assume that.

The WITNESS: I have no intention whatever of placing a scheme before the Committee which has not before been put forward as a scheme, subjected to criticism of the people who understand the local conditions and the subject at issue. I have very strong views on the divergence of the general principles which are embodied, let us say, in the financial system not only of this country but of every country, and the principles which would deal with the troubles which are growing more serious in every country of the world at the present time. These general principles, if you are interested, I shall be most happy to place before you afterwards, and those would really be put before you usefully. I shall, if I am allowed, and if you wish me to, emphasize where the

present arrangements are leading you and what they have produced. If you are satisfied—.

The CHAIRMAN: Yes. I think that is fair. You may proceed. That is in answer to Mr. Irvine's question. I think that question is perfectly proper. We cannot consider the resolution unless he can give an answer to it.

Mr. McMASTER: He has a remedy and he wants to discuss the disease before he prescribes a remedy.

The WITNESS: Well, gentlemen, first of all, I would like to say that I am a little sorry, and that I am very unwilling, from my point of view, to sense the introduction, if you will allow me to say so, without the slightest intention of an offense, of a certain amount of acrimony into this discussion. My own object in coming here is to make clear that I personally am convinced that if you go along the lines that you are following at present, and if you continue along these lines for any considerable period of time—I am not going to tie myself down to date—but for my own part, and I think my opinion is being shared by an increasing number of people,—I am perfectly certain you are heading for the most terrific disaster that the mind of man can conceive. What

I want to make clear is that this trouble all over the world centres around the question of the attainment by individuals of a reasonable share in the goods and services which they see about them; and I want you to be perfectly clear in your own mind, as I am perfectly clear in mine, and I feel perfectly certain you must be clear, if you will take the time and the trouble to go into the facts, that there is no difficulty whatever in producing all the goods and services that anybody can reasonably require; and that also with the expenditure of a great deal less time in human labour than is expended at the present time. There is no difficulty whatever in any production problem, simply taken as a production problem. As I said earlier in the day, I do not think it is at all possible for any man to put money on the table and say "I want so and so" and not get it. And further than that, in a certain amount of time, I do not think it is possible for any number of people to put the price on the table and say, "I want that" and not get it. So that you have a situation existing in the world to-day in which you have a production system, which is demonstrably able to produce everything that anybody could reasonably desire. That is a thing which has been proved up to the hilt, if it were not proved before, by the enormous production of the years 1914-1919. It is proved in regard to agriculture, as I said earlier in the day, by the fact that in spite of predictions of a certain number of somewhat short-sighted people, the elimination of Russia, one of the greatest wheat producing countries of the world, has hardly affected after two or three years, the world price of wheat at all. In fact, not so many months ago, wheat in Great Britain was very little above pre-war prices; and there you have I think, a demonstration of the fact that you can take huge blocks of the world's surface out of production and still have sufficient production left, and what is true in regard to a thing like wheat, is very much more true in regard to a thing like clothing, housing, and all the other necessaries of life. Therefore I want you to get it fixed in your mind, that this problem which is threatening the world with disaster is not a production problem. It is not one which can be solved by anything which is affected by technics. We have already got to a stage when we know enough about the technical details to produce quite easily all that we want. That is one thing. On the other side, I think you must admit this, if any sort of survey is made of the world at large, and particularly the large world towns, that it would be absurd to say that there are not large numbers of people in the world who have barely a physical means of subsistence, and that there are still perhaps greater numbers of people who draw from this productive system above the bare level of bed, board and

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clothes; so that you have on this one side this enormous capacity to produce, and this enormous demand which remains unfilled, and something stands in between that capacity to produce and that need to be filled and that thing is finance. There is no other possible thing that can stand in between. The thing that gets the goods over from the producer to the consumer is finance. It is the ticket system; and what I want to reiterate again, at the cost of being redundant about it, if you can put the tickets on the table, the production system will hand you over the goods. The great majority of the people in the world are not in a position to put the tickets on the table. That is what is the matter with the world at the present time, that, and to a very large extent very little else. It is not an administrative problem, and therefore what is commonly called "socialism" is not a remedy for it. It is not affected by taking demonstrations from private administration so-called and public administration so-called. That is not the point of difficulty at all. It is solely and absolutely a question of getting a suitable method of getting the goods over from the people who produce them to the people who need them. That can be translated into plain English in a very few short words. What I want to do is to give to the great mass of the population more purchasing power, and the contention that I make in regard to the present financial system is that it fails to distribute sufficient purchasing power, and that means that the relation between the money which is distributed and the price at which things have to be sold is an incorrect relation. I should say that it is impossible that there should be any other relation, and when you insist on the truth and the soundness of the contentions which are made in that pamphlet which we have been examining this afternoon and this evening, you would be justified in saying, as long as you admit the contentions which are contained in that pamphlet—and they are the orthodox contentions, and the chief of these contentions is that the more money you issue the higher prices will range—so long as you insist that that is what you might call the law of nature, so long is there no exit from this trouble in which we find ourselves. But it has been the object of Mr. Irvine, in cross-questioning me this afternoon and this evening to put on record in every possible way, that there are axioms and laws, and to suggest that they are merely rules, just as you have the rules of a game or the rules of a workshop, and that just as the rules of a game or the rules of a workshop are amenable to change in the interest of the players, so are these the rules which we are inclined to accept as axiomatic. The question of how you get this increased purchasing power is a technical question, and so far as I personally am concerned I should be most reluctant to put forward any technical scheme, because I am, by training and education, a technical man, and any technical man knows that the first thing that you have to do before you put forward a scheme of any sort in connection with, let us say, engineering, the scheme is to go over the ground, and the ground varies from place to place, so that the actual details which are applicable and suitable, let us say, to Great Britain, might be very easily modified, let us say, very greatly in a country like Canada. I have no hesitation whatever in saying that you have only one possible exit from your difficulty, and that is to devise a scheme which gives more real purchasing power to the public than it gives at the present time, and of course that is not done by the easy method of simply issuing more money. But the exact details in which you do it are technical in my opinion, and wholly unsuitable for discussion at this stage of the proceedings; but what I would like to put over against any criticism of the existing banking system is that it is possible to devise, without interfering with the management of the present banks, the management of industry, and without interfering with the daily habits of everybody, as we know them, it is possible to devise a scheme by which the

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general individual can get more purchasing power than he gets at the present time. It is with the object of meeting you, to concentrate on that point, that I have taken up your time to-day.

The CHAIRMAN: Major Douglas does not care to open a discussion on his substitute proposals of finance this evening. He says he will be ready tomorrow afternoon. We will proceed with the further examination of Mr. Powell.

WEDNESDAY, 25th April, 1923

The Select Committee on Banking and Commerce met at 4 p.m., the Hon. K. Maclean, the Chairman, presiding.

The CHAIRMAN: The Committee will come to order. Has anyone any motion to submit?

Mr. HUGHES: Mr. Chairman, I beg to submit this amendment which has been printed.

The CHAIRMAN: Just explain it in a word.

Mr. HUGES: Perhaps I might read it, it is short.

The CHAIRMAN : It looks very long, on the paper, from here.

Mr. HUGHES: Well, the Fire Insurance Companies think that sometimes a bank officer who is interested in another company, intimates the company in which he would like to have the insurance placed, whether it is connected with a subsidiary company of the bank, or connected in some other way. They think that is a grievance, and whether that can be remedied by an amendment to the Act or not, of course I do not know. It may be somewhat doubtful. At all events the Fire Insurance Companies wish to submit this amendment to the Committee and to ascertain in that way what the Committee thinks of it. That is the substance of it.

Mr. W. F. MACLEAN: Is that the substance of this circular the members got to-day?

Mr. HUGHES: Yes, I think so, a notice of motion.

The CHAIRMAN: On behalf of Mr. Casgrain who is absent. I wish to submit to the Committee two amendments he proposes. One is to amend section 76, subsection 2, by adding after the word "accountants" in the second line thereof, the words "or by any association of chartered accountants incorporated by Provincial Statute." .

He also moves to amend subsection 2 of section 83 by striking out all the words commencing with the word "Who" on the 9th line thereof down to the end of the subsection, by substituting the words, "of or in respect to such products, goods, wares and merchandise," which will appear on the Order Paper.

Any other motions?

Our business this afternoon is to hear further from Major Douglas.

MAJOR DOUGLAS'S Examination continued.

By Mr. Irvine:

Q. Mr. Chairman, I would like to ask the Major to include in his statement, in view of the slight misunderstanding as to the evidence yesterday a short resume of the principles which he covered in his evidence yesterday.

Mr. W. F. MACLEAN: That is not part of the statement he was making last night?

Mr. IRVINE: You will hear.

MAJOR DOUGLAS: Mr. Chairman and Gentlemen: I should like your indulgence, if you will give it to me, in summarizing the line which was taken in the evidence I had the honour to give to you yesterday. I should like before doing that to put before you, very briefly, the ground against which I think that line of what you can call, if you like, an attack on the existing financial system, should be considered. I believe that that background is present, probably, in the minds of everyone here, but I think it will clarify your judgment in regard to what I have to say, if I just run rapidly over that background.

I think you will all agree, I think it must be agreed anywhere, that we are in a time of great economic and industrial difficulty; and I think you will probably agree, perhaps not so readily, but after a little further thought, that the difficulty in which we find ourselves has only really been accentuated by what we refer to as the great war; that the difficulty existed in essence before the war, and was in fact, to the eyes of fairly close observers, coming to a serious climax almost immediately before the war, had the war not occurred. But in addition to that, in addition to these active difficulties that we all see in the shape of political discontent, strikes, and so forth, there are difficulties which are not quite so obvious, and which do not seem, at any rate to me, to be amenable at all to, let us say, the rather forceful methods which sometimes can be applied to strikes and so forth.

For instance, I should like to put before you the position in regard to the farm labourer in Great Britain at the present time, because I think, without knowing your special conditions here, that sooner or later such a position would be bound to occur, and it illustrates the sort of difficulty which we suggest comes out of the financial system as it stands.

The farm labourer in England at the present time gets about 25 shillings a week. I will keep it in British currency because you can convert it into dollars if you like without affecting the result. Wheat, at the time that I took these figures—it has risen a little since then—was selling for about 43 or 44 shillings per quarter.

Mr. W. F. MACLEAN: Will you put that in bushels please.

MAJOR DOUGLAS: I am told that there are eight bushels in a quarter, and I take it that there are four bushels to your bag.

It is well known in Great Britain that roughly speaking the economic rate that you can afford to pay a farm labourer on an ordinary farm is the price of a bag of wheat. That is a rough and ready guide which has always been accepted as giving some indication of the economic rate of wage. Now at the present time somewhere between 25 and 30 shillings a week is what is alleged to be the highest economic rate that you can pay a farm labourer. At the same time in England you cannot build a farm labourer's cottage so that you can rent it at an economic rate, at very much less than 20 shillings a week. Remember that his wage is somewhere between 25 and 30 shillings a week. If you build as I say on purely economic principles, and rent on purely economic principles, you cannot build and rent a cottage for less than about 20 shillings a week. Therefore a man with a wife and two or three children would have

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left, after he has got a cottage, let us say, to give the outside figure, about eight shillings a week to keep four people, to clothe them and to feed them and to provide them with that lavish amusement which you would expect they would have, after spending two dollars a week on food, clothes, and so forth. Now that is the position in which neither side, neither the farmer who pays the wage nor the labourer who accepts it can be said to have any option at all. So long as the farmer carries on his business on the orthodox principles, he cannot pay a higher wage than that, and it is agreed that it is simply fantastic to expect a man, his wife and two or three children to live on a couple of dollars a week in England. Obviously it cannot be done. This is the sort of impasse or sort of dead end which you will find, as a matter of fact, in almost every field of endeavour at present.

By Mr. Sales:

Q. Are you sure you are right in those figures?—A. Which figures?

Q. That you cannot build a labourer's cottage and rent it for less than £1 a week.—A. I will give you the figures. It cost anywhere from £400 to £600 to build a cottage.

Q. How many rooms?—A. That would be a cottage of about 4 rooms and a small one.

Q. Something like they used to rent for 2 shillings a week?—A. Something just like that. Then if you will take that capital you will appreciate it and see where you get to.

By Mr. W. F. Maclean:

Q. Does he pay that as a matter of fact now?—A. No, he does not, simply because he cannot. He is generally subsidized by the owner of the land.

By Mr. Stevens:

Q. What are his wages to-day?—A. About 28 shillings a week. The actual strike which is going on at the present time is as to whether he shall get 26 shillings or whether he shall get 29.

By an Hon. Member:

Q. Is that the wage for a man taking his meals on the farm?—A. No, that is his wage, and find himself. To just round out that argument, because I think perhaps an argument of that sort is very valuable in connection with a thing of that sort, I might give you an actual personal experience in regard to a property which I might be said to have some personal interest in. This property was assessed for death duties at £11,000. It is rented at a nominal rent; that is to say, the alleged rental of this farm is £240 a year. During the past two and a half years, perhaps three years, that property has produced to the owners a net sum of £17; £17 on something which is alleged to have a capital value of £11,000.

By Mr. W. F. Maclean:

Q. Roughly, how many acres?—A. Just over 200 acres.

By Mr. Hughes:

Q. Is the owner of the farm the same man?—A. No, the owner of the farm is not the same man. I do not know how much the farmer is making out of it, but I believe, from knowing something about the farmer, that he is correct in stating that he is not doing at all well.

Q. And the owner?—A. The farmer is not doing at all well, so that you have there a position in which you have the owner making no money, the

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farmer making very little, and the labourer unable to live, and the price of the product to the consumer still quite high. Those are facts and not theories. I want you to have these at the back of your mind when I proceed a little further with this discussion. There is another and extremely important aspect of this subject, and that is the growing imminence of another great war. There has been during the past two or three years a steady grouping of forces for another cataclysm and at the back of that grouping which you have, that threat has a perfectly simple cause, which is sufficiently easy to explain. I do not suggest there are not subsidiary reasons, but this reason that I am giving you is quite sufficient to explain it, and that is the necessity for the capture of commercial markets.

Q. That is economic?—A. That is economic.

By Mr. W. F. Maclean:

Q. Is there not a political reason for the great disturbance too?—A. I think myself that there are certain psychological causes which I believe can be traced back to the economic reason, and that those perhaps are now beginning to obscure the economic reason, but the position is very much as if a man had $10 stolen off him and will have a fight because he is angry. If you take it a little further back it is because he has had $10 taken off him. That again is in the background of this picture. I took up a little of your time last night in emphasizing the fact that there is no productive problem at the present time. There is no difficulty whatever in producing as much of any given thing as you want, and I would repeat, in order to emphasize it, if you will put your money on the table, you can get anything that you ask for, and further than that, if as many people as you can get together can get sufficient money and put it on the table, they can get what they want, no matter what it may be. There is practically no demand which cannot be met if you are prepared to back that demand with what is called effective demand, and that is money. On the other side, as I said before, it is quite obvious that there is an enormous unfilled demand. You have on this one side the producer of all sorts, straining to produce—and there is an unemployment problem, which means that he is not allowed to produce, and that is a problem which is becoming more difficult to handle every day almost everywhere—and on the other side we have the consumer who says he is not allowed to consume, and these things are common practically to every country. Now I am repeating myself a little but I think it is worth it in this case. Something stands in between this power to produce and this need to be filled. It stands in the form that we see, in the difficulty of the farm labourer, the farmer and the consumer. You have the farmer who wants to farm. You have the farm labourer who wants to work and who wants to live, and who wants a higher standard of life. You have all these three things, and they cannot get together. Something stands in between this thing and that thing, and I think we are irresistibly driven to the conclusion that the thing that stands in between is finance, the financial system. There is no nexus between consumption and production except finance. The thing which prevents manufacturers getting orders which they want or the farm labourer getting the things he wants, the farmer increasing his production to the extent he wants, the thing that is lacking is effective demand, and effective demand means in plain English, "money." So that we have standing in between those two things which ought to be brought together, the financial system. Now, the bankers operate the financial system. I do not think they themselves would deny that for a single instant, particularly I suppose in Canada, where the great mass of your legal tender, your currency, is actually issued with the superscription of the banks on it. That makes the thing more obvious perhaps than in Great Britain, although the thing is not substantially different, because a Treasury note represents some

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form of currency and is only issued through the banks and so is in fact practically for all purposes controlled by the bank. The bankers operate the financial system. They have, in Canada, issued a statement of their case, a copy of which was kindly sent to me, and, on which I was examined yesterday. The results of that examination in detail, of course you will no doubt find in your records, but the two main things which I wish to bring out as to the object of that examination are these: that the bankers state in that statement of their own case—and you must remember it is their statement; it is not anything that any critics of the banking system have made; it is their statement, so that there is no question as to misrepresentation or anything of that sort about it.

By Mr. W. F. Maclean:

Q. And perhaps a little apology?—A. It is an apology, if you like to put it that way, and bears the name of the Canadian Bankers' Association. No question of misrepresentation can arise about it, and they state specifically that money not only is but ought to be a commodity, and they also, by issuing that statement and by the claims that they make in it, say they are the proper people to carry on business in this industry. In addition to that, they attribute certain virtues to a gold standard and they make certain statements in regard to the gold standard. Now, the answers to the questions which were submitted to me yesterday, to my mind were intended to make clear these two main points that I have brought before you. There were many other answers on subsidiary points, all of which buttress the argument that was put forward, and these you can examine for yourselves in detail; but the two main points which we wished to make are these: we say that to regard money as a commodity is proof of a radical misunderstanding of the proper function of money, and remember, that we have got to the point where we agree that there are difficulties in the world, and we agree, at any rate for the sake of hypothesis, that these difficulties reside in the financial system, and we say that to regard money as a commodity is proof of a radical misunderstanding of the proper function of money. Now, I should like to be allowed to expand that a little for a moment, not to the extent it can be expanded, but to go back to an illustration which came up yesterday and which I think is perhaps a fair analogy. Supposing you had a railway and you had a ticket office in a city, and the object of the ticket office —as may be the case in regard to limited trains—was only to issue tickets, so as to allocate a proper number of passengers to each train. Supposing somebody got in between the ticket office and the train and began to carry on a trade in tickets, using the tickets themselves as the currency in which they traded in tickets, that is to say that they began to play a game in which they tried to get two or three tickets for one ticket, and so forth, to concentrate the holding of those tickets in the hands of one person. You will see that all possibility of the original idea of those tickets which went to make a nexus or connection between a certain number of people and a certain number of places, that the possible idea of carrying out that scheme would be completely defeated by this trade in tickets which went on between the consumer, that is to say, the person who wanted the place on the train, and the people who issued the tickets. You could not possibly get the passenger over from the ticket office to the train and find that he had got the right accommodation if in between there was a game going on by which two or three tickets got concentrated in place of one ticket. That is an exact analogy of the position which occurs when you treat money as a commodity. You are carrying on a trade in tickets, using the tickets themselves as the means of the trade; and it is impossible, for that reason alone, if for no other reason that there can be any relation between the effective demands of the people and the productive capacity of the productive system, if you have some manipulation of these effective demands going on between the consumer and the producer. That is what we say. Now

then, in addition to that, they say that there are certain virtues attributable to a gold standard. We have put in as evidence, figures supplied by the Federal Reserve Board and also other arguments to show that their own statements are directly contradicted by figures apart from anything else, and that therefore they do not appear to know what happens actually in regard to the gold standard, not at any rate, taking their case as they put it forward. Now the position taken up by the orthodox banker in regard to the banking system—and again I repeat it is the system and not the banker, I am attacking—the position taken is that there is nothing wrong with the financial system, that it might possibly be polished at the corners and that sort of thing, but the main principles of it are sound, and further than that, that they should be allowed to carry on for a further period of years everywhere, and I suppose particularly in Canada, but the same argument applies, that there is nothing wrong with the system. Now, the suggestion that we make since as we see it the financial system is demonstrably at fault, and as we see that the expansions of the existing financial system made by the people who do operate it, do not in fact correspond with facts, quite apart from any question of theory, it would appear that they do not themselves understand how the system as it is at present does in fact operate, they do not seem to be in possession of the actual information as to what happens at the moment, or at any rate they do not seem to be able to read that information, and alternatively they do not know how it ought to work satisfactorily. They say that certain things are satisfactory when results are patently and generally condemned, and they say that is a satisfactory working, and they have no suggestion as to how it ought to work satisfactory[ill]y. The object of the whole of that argument is to bring us to the point that at any rate from our point of view there is ground either for some considerable delay while the facts are further investigated, or else somebody should explain what is the fallacy which is involved in the statements that we are making, because unless those statements are logically disproved it seems to me that they must stand, and that, gentlemen, is the position to which you are brought as we saw it last night. I am now open for any further questions.

Mr. W. F. MACLEAN: Has the witness a concrete proposition?

Mr. RYCKMAN : When is the witness going to give us this substitute plan?

The CHAIRMAN: I was going to suggest that Major Douglas should proceed to elaborate an alternative scheme to put in place of that which now prevails; I think that would be more satisfactory to the committee and in the end to himself.

The WITNESS: Mr. Chairman and gentlemen: the point that I think wants to be made clear before I proceed is, that if you are all satisfied with the statement that the present financial system is broadly speaking perfect, there is of course no ground for putting forward any alternative. If a man is going to assert that he is not sick, it is obviously foolish to offer him a remedy. Therefore, as you are good enough to ask me to put forward an alternative I must assume that you agree that perhaps we are in the body politic a little sick, and on that assumption I will proceed to put before you not a concrete scheme, because I do not believe that anything could be more useless at this stage of the proceedings than to put before you a concrete scheme—

By Mr. W. F. Maclean:

Q. That is what we are charged with, to find a concrete statement in connection with the revision of the Bank Act?—A. I have not been examining, with your permission, the concrete details of what I consider to be the scheme before you at the present time. The scheme before you at the present time is

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that, we will say, of the Canadian Bankers' Association; it is just as much a scheme as any other scheme. You are considering that, and that is the scheme which is before you, and I have not been examining that in detail; I have simply been endeavouring to point out to you where I think it is based on fundamentally unsound principles, and therefore I should like to put side by side with that certain principles simply for your consideration. Any scheme that might follow at any very much future time we will say would, as I see it, in order to be effective, have to build up on those principles. The principle which you have got to embody in any change to meet the criticisms at any rate that I have been making, such a scheme must embody greater purchasing power to the individual on the whole than he has at the present time. The object of the industrial system, the object of the whole productive and trade system including its banks, its fields, its farms, its manufactures, and so forth, is simply and solely to deliver goods and services to the individual; that is its only sane justification for existence. If it does not deliver those goods and services to the individual, it fails of its object, and it fails of its object at the present time, because the individual has not got the effective demand by which he can get those goods and services; it fails not because the productive side of it cannot produce them, but it is because the consuming side of it cannot get them by means of something which we call effective demand; and in order to give the individual effective demand over and above that which he has at the present time in relation to the same body of production, we have to establish a different ratio between the money issued over a given period and the money taken back over a given period through the medium of prices. You can never get any grip at all on this subject until you realize that purchasing power, by which I mean money credits, and so forth, wages, salaries, and all those sort of things, and prices are simply the two ends of one thing, that out through the medium of wages and salaries and dividends and so forth is flowing a stream of what we call purchasing power, what can be called purchasing power, and back again is flowing another stream in the reverse direction through the medium of what we call prices; and it is perfectly clear I think, that if you alter the ratio of those two streams you alter the effective purchasing power on the part of the consumer; so that any possible scheme which is going to deal radically with this proposition and this situation as you find it must deal with purchasing power and prices at one and the same time. Now, there are certain good sound practical objections to what we call fixed prices. A good many experiments have been tried in fixing prices, and there are many ways of getting round fixation of prices. In addition to that they have what I personally regard as an insuperable objection, that they put everybody dealing in a commodity on one flat level, and they do away with the undoubted benefits which do appertain to competition. There are certain undoubted disadvantages which appertain to competition at the present time, such as wastefulness, and so forth in many cases, but there are certain very great advantages which appertain to competition, and those are affected by fixed prices. So that it is not quite simply a question of fixing prices. But you have as a matter of fact always in the credit system as it is operated at the present day, a stream of fresh credits coming out, but we know perfectly well that it is always possible to create credit, given certain premises, and if you find that your industrial and economic system is blocked from the fact that the consumer has not got sufficient effective demand you can apply that stream of credits to remove that block, and you can apply it by reducing prices through the aid of those credits, and making up the difference between the price of an article as it would be at the present time, and the price of an article which is necessary to get it sold. You can make up that difference in price by applying credits

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to it. It has been done, it has been done and most effectively done in Austria. I should like to be allowed to read an extract from a book by Col. Repington called "After the War". You perhaps know that Col. Repington was sent round Europe by Lord Burnham to look into conditions, and this is the statement made on April 11th, 1921:

> "I am much impressed by studying the Austrian papers. They seem detached and indifferent about foreign affairs, but are full of accounts of all sorts of new or extended industries springing up, and I counted twenty-three pages of commercial advertisements in Sunday's ***Neue Freie Presse***. I read or hear of every kind of old industry being extended and of some new one opened. New machinery is being employed, and on the farms prize stock are being bought and farm buildings improved by the rich peasants who throve on the war. From Upper and Lower Austria, Styria and the Tyrol, it is all the same story of new developments, and what is really going on is an endeavour to make the new Austria less dependent on her neighbours and less forced to buy abroad in markets made fearfully dear by the exchange."

On page 145 of the same book it says:

> "I find that two-thirds of the Austrian deficit is due to food subsidies, chiefly bread. A loaf of 1,260 grammes is now sold for nine kronen, but costs sixty kronen to the State. Even a Rothschild is paid therefore fifty-one kronen by the State for every loaf he eats."

Those two statements are contemporaneous. During that period—of course you will no doubt be shocked at the idea of quoting Austria as a desirable thing, but I simply want to make one point out of this—during the period in which this application of state credits in that case to a reduction of prices was in operation, the first description of Austria applies, that every farm was putting in new stuff, buying prize stock and so forth. What was happening was that there were huge budget deficits, but that did not affect the fact that everybody in the country was prosperous. Since that time Austria has returned to greater financial soundness as measured by usual standards; there is a complete wave of economic stress covering Austria at the present time, and everybody is either down and out or just about getting down and out, but the budget is approaching nearer to financial soundness, which I feel sure must be a great consolation to the people who are down and out. Well, that is the principle which in my opinion has to be included in any attempt to deal with this situation, and that is—I do not mean the Austrian method—but the principle that you have got to alter the relation between prices and purchasing power. Now, I should like to outline just one sort of specimen method by which the thing could be done, not in any sense submitting it as a finished scheme—

By Mr. Clark:

Q. Where did Austria get the wherewithal to do that?—A. If you will tell me where the banks get the wherewithal to loan more money than they have got I will answer you that question. It comes out of the same source.

Q. Could it go on forever?—A. Under certain conditions, yes, assuming that the real credit of the country was expanding. The principle can be applied indefinitely; that is the short answer to that.

By Mr. Stevens:

Q. Would the witness please before he leaves Austria, just to make that illustration clear, tell me this, Col. Repington's article I understand is dated

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April, 1921?—A. This is the date, April 11th, 1921. I read this thing myself about a year ago, and remembered it, and thought it might be useful here, and got the book out of the Parliamentary Library; so that if you want the book it is there.

Q. No, what I am getting at is the fact that that which he was referring to is what was occurring in April, 1921?—A. That is the case.

Q. And the Austrian deficit was made up by new issues of Austrian notes, that is true, is it not?—A. Not notes, no, simply book entries.

Q. The Austrian currency was inflated I think just at that time, and immediately following that time. During the year 1921 Austrian currency fell in value to almost a vanishing point—that is correct, is it not?—A. That has nothing to do with—

Q. I am not saying it has, but it is a fact, is it not?—A. I daresay, I have not got the figures in my head, but I should be perfectly willing to admit it. It was very low at that time.

Q. Then the point applies there as applied yesterday in my question regarding Germany, there was a wave of activity and prosperity in Austria during that time, during that period of inflation?—A. Yes.

Q. I think that also is a recognized fact?—A. Yes.

Q. Now, then, we come to a period, the exact date I cannot recall, but you can very well find it by reference to the library, perhaps I might say about a little over a year ago, about December, 1921, when there commenced an effort, a joint effort on the part of the stronger nations of Europe to re-establish Austria's credit, culminating as it did a few months ago in that large advance —is that not a correct statement of fact?—A. That is a statement of fact without doubt, yes. You understand we are talking about financial credit?

Q. Exactly, but I am just trying to make a series of statements of fact in the sequence of events regarding Austria?—A. Yes.

Q. The reason that joint effort was made by the various allied nations in Europe was because Austria's system up to that time was acknowledged by all to be absolutely incapable of restoring Austria to a normal condition or anything approaching a normal condition?—A. I should reply to that simply that up to the time this alleged remedy was applied, Austria was extremely personally and individually prosperous, as evidenced by what I am saying. The application of this desirable remedy to this condition in which she found herself has been to reduce Austria to a state of economic disaster, though possibly greater financial soundness.

Q. I would like to get this point clear before the Committee. I think it is very important?—A. It is.

Q. Following this process which you have referred to, and including what you referred to as food subsidies?—A. Yes, they are not really subsidies; they are simply named as subsidies.

Q. I know, but we must name these activities with something and that is as good a name as we can use, I suppose. Austria went through a period of artificial activity. I use the word “artificial” because I think you will agree that it was artificial?—A. No, I would not agree.

Q. Then let us say “activity” and leave the adjective out?—A. Yes.

Q. Industrial activity and agricultural activity?—A. Yes.

Q. At the same time Austria put on very drastic prohibitive tariffs, almost embargoes against importations. That is true, too, is it not?—A. I believe that is also true, yes.

Q. Then we come to a point about a year and four or five months ago, in 1921, when Austria admitted she was in a position where she was helpless and hopeless?—A. Her financiers admit it.

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Q. Well she could not buy outside. As a nation among nations she was in a hopeless position?—A. I do not think so. That is not the information I have. Austria up to the time when the drastic increase of taxation, and what we can refer to as the food subsidies—which were not food subsidies, but the application of credits to the reduction of prices, which is what they were—up to the time those things were removed, Austria was doing very well.

Q. Very good then, that is putting it in a little different way. What induced the Austrian authorities to abandon that process under which she was doing well?—A. Outside political influence.

Q. Well of course that is an assertion that I do not think is borne out by the actual evidence?—A. I think so.

By Mr. W. F. Maclean:

Q. Political influence within the State?—A. I hear someone ask what credit she was given. She was given very little credit because the course she was pursuing was the most powerful menace to the system, which I can only refer to as international finance, that could possibly exist, and that menace was so dangerous to the system that Austria had to be dealt with, and therefore she was ostracised, so to speak.

By Mr. Stevens:

Q. It is difficult for us to agree on that Mr. Douglas, but the fact is that Austria did cease or abandon that particular process, didn't she?—A Yes.

Q. Now will you follow me in this or would you mind enlightening myself and the Committee on this. Czecho-Slovakia did not follow the same method as Austria followed?—A. No.

Q. Czecho-Slovakia preferred to suffer for the time being?—A. Yes.

Q. And is she not in better shape than the other countries which followed the Austrian process?—A. Czecho-Slovakia, according to the last information I have—which is probably six months old—up to that time she was in a dreadful state.

Q. But she is in a better state than the other?—A. Certainly not six months ago. Her unemployment figures, certainly, if that is a criterion?

Q. No, I agree with you there.—A. They were five or six times those of Austria.

Q. The same as I agree with you that England’s unemployment condition is worse than Germany’s.—A. Yes.

Q. But I don’t think you would ask me to agree that Germany or Austria is in a better condition as a nation, as a whole, than England or Czecho-Slovakia?—A. I should be inclined to agree, as matter of fact, but I should give a different reason probably.

Q. But as a matter of fact?—A. As a matter of fact.

Q. What I am trying to get at is facts, because I think we need these facts in order to get a correct understanding of these conditions?—A. Quite.

Q. Let us get back to Austria again then and come to the point where we divided. Austria abandoned her previous method, this method of subsidies, embargoes and such like.—A. Let us say that they stopped.

Q. Then Austria, by the assistance of outside credit, given to her by other nations, is now seeking, and has been for the last year, with I think considerable success, as far as the reports convey, to establish or re-establish herself in the world markets, among the nations of the world. Is not that correct?—A. Well I should comment on your statement in this way, that Austria has been removed during the period 1921 to 1923 from the position of a country which was in control of its own economic affairs, and was during the period up to 1921 highly

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successful internally, although admittedly not having an external credit for reasons that can easily be understood, and she has gone through a period of great tribulation, and is now perhaps slightly approaching but has by no means reached the position that she was in, internally, in 1921, and is entirely dependent on outside influences.

Q. Then let us take it this way; that any nation or community, or let us leave nation out of it for the moment, and say any organized community that will follow a process such as Austria followed, and Germany, to which we referred yesterday must come to some time when they will have to abandon that process?—A. Oh no.

Q. Or else face chaos and disaster?—A. Oh no, I disagree absolutely with that.

Q. Yesterday you agreed to that as far as Germany was concerned?—A. No, what I said was that if she followed the exact procedure of those countries, there must come a limit, yes; but I should put against that, that it is by no means necessary to sacrifice the advantages which were gained by that procedure in order to retain continuous stability.

By Mr. W. F. Maclean:

Q. Before you leave that, can you tell us what were these things that checked Austria? Practically you say some outside intimidation changed the current of affairs?—A. I think it was the threat of absolute dismemberment and handing over to Italy. It was definitely suggested that Italy should take over Austria as a sort of colony.

Q. Who did this intimidation?—A. The League of Nations.

The CHAIRMAN: Mr. Maclean, this Committee can only have these facts established by authority of some kind, and Major Douglas says he does not know.

MAJOR DOUGLAS: I am only giving an opinion in regard to these things.

The CHAIRMAN: You said it was not even an opinion.

MAJOR DOUGLAS: No, it is hardly that. I am not covering that ground.

Mr. STEVENS: I think we ought to stick as far as possible, to actual facts.

The CHAIRMAN : We know from documents issued by the League of Nations that upon the request of Austria certain European nations, and I think the United States, loaned a certain amount of gold. We can get that in the library beyond a doubt.

MAJOR DOUGLAS: I think I had better come back within my proper province. I am getting outside it.

By Mr. Speakman:

Q. May I ask one question before the witness leaves that subject? It strikes me as very interesting and important, from what has been stated by the witness to Mr. Stevens: it looks as though the prosperity of the individual and the prosperity of the nation were in inverse ratio. That is that during the period while the nation was going to chaos, the individuals in the nation were highly prosperous, and as the nation approached a more stable condition, the individuals within the nation became less prosperous, and even at the present time there is more suffering in a nation such as England, which is on a more stable basis, than in a nation like Germany, which is not. I would like that explained to me because it looks rather peculiar if it is true.—A. I can only congratulate the questioner on his acumen in seeing that point. That is exactly the position.

[Major Hugh Douglas.]

By Mr. Irvine:

Q. Mr. Chairman, before you leave this point there are two questions I would like to ask. The first is, is it a fact that one of the terms of the loan to Austria was that she limit the supply of her issue of money?—A. I think I must answer this without prejudice, as a result of the ruling of the Chairman.

The CHAIRMAN: No, that is all right.

The WITNESS: I believe that that was so.

By Mr. Irvine:

Q. If the real credit of Austria had been impaired by what she had previously been doing, is it reasonable to suppose that other nations would have rushed to her with loads of gold?—A. Of my own opinion, I should suggest not.

By Mr. Clark:

Q. Mr. Chairman, the witness has stated, as I understand him, that nations which extend credit in the way that Austria did, and go into debt to an unlimited extent, there the individuals prosper as has been stated. Now the question I asked was, where is the nation going to get this unlimited credit? It must go into debt to do it; where does it borrow the money or the credit. The witness answered me that if I could explain how the banks are able to loan more money than they have he would be able to answer the question; but it seems to me that it is just a fog. I would like the witness to answer it in a concrete practical way. In the first place I don't know how he bases his assertion that the Canadian banks loan more money than they have. The minister of Finance has put in our possession a statement which shows that they do not, that the banks are in possession of tremendous sums of money which they never put out, in excess of what they loan. Really I think it is due this Committee to give us some concrete detailed explanation of that.—A. In regard to that last question, the whole subject of whether banks do or do not create fresh purchasing power by their operations has been gone into at very great length. If you really wish me to go into it, it is a fairly elaborate argument, and I shall be prepared to do it, but it will take some time. I can assure you that it is established as a fact that banks do create fresh purchasing powers by their operations; purchasing powers which they actually create, which did not come into existence from outside. That is established, I think beyond any question or discussion, and has for instance been stated categorically and admitted categorically by the Honourable Mr. McKenna as Chairman of the London Joint City and Midland Bank at the last annual meeting. It is a long argument and if you say that I am to go through it, I will go through it.

By Mr. W. F. MacLean:

Q. Is it the ledger entry?—A. It is a sort of ledger entry business.

Mr. IRVINE: I would like to suggest that the witness give us an illustration of how the bank operates and how the credit is built up.

The CHAIRMAN: I think every member of the Committee understands that.

Mr. IRVINE: If the members are satisfied I am.

By Mr. Hughes:

Q. Mr. Chairman, I want to ask one or two questions so that I may understand as I go along. If I understand Major Douglas's theories at all, they come to this: that if I for instance wanted to buy something necessary or useful, I would pay the owner of that something less than the present price and

[Major Hugh Douglas.]

the national credit would pay the difference.—A. That is the way that it would appear to you as the user of the system.

Q. And is that correct?—A. It would appear to you that way; that is correct, so far as a statement of the action you would take, yes. The theory which is behind that is not included in your statement obviously. What it boils down to is, that you pay less than you pay at present.

Q. You pay less and someone else pays the difference?—A. Yes.

Q. And who would be that somebody else?—A. The somebody else might be either the existing banks or it might be the State or it might be new banks or it might be a local credit organization or half a dozen other things. That is only a question of what you might call organization or administration.

Q. Of details?—A. Entirely a question of details. The fact is that there is a source existing; we know exactly how to make up the difference between the price which we pay and the present price.

Q. There is someone then who is going to pay the difference?—A. Quite so.

Q. Well now what would be the proportion that that somebody would pay and that I would pay?—A. The proportion that you would pay would be the proportion that the total consumption of the community bore to the total estimated possible production over the same period of time.

Mr. HUGHES : I am as badly off now as ever.

WITNESS: Well, I think we are getting ahead a bit too fast.

The CHAIRMAN: I think Mr. Hughes has read Mr. Douglas's book and is, as Mr. Douglas says, getting ahead a little too fast.

By Mr. Hughes:

Q. No, I thought I saw what Mr. Douglas was coming to. If I remember correctly he stated that in the case of Austria a loaf of bread that some time ago cost 60 kronen?—A. Yes, 60 kronen.

Q. Could now be purchased for ten kronen?—A. Yes, right.

Q. And that somebody, the State, supplied the 50 kronen, the difference?—A. Quite. That is what actually happened.

By Mr. Stevens:

Q. You do not surely assert that?—A. That is exactly what did happen, as a fact.

Q. You do not surely assert that the reduction in the cost of living which now obtains in Austria from what it cost two years ago, is wholly the result of subsidies by the Crown?—A. No, that is not the statement.

Q. Or credit subsidies?—A. That is not the statement. The statement is that in 1921—I think the speaker was just quoting from what I read here—the actual cost of baking and delivering the loaf of bread was 60 kronen, and the actual purchaser of the loaf of bread only paid 10 kronen.

Q. At that juncture?—A. Yes, and the other 50 kronen was paid to the baker for someone else, by the State.

By Mr. Hughes:

Q. By the State?—A. In that case it was by the State. That is only a fact.

The CHAIRMAN: By the issuance of paper money.

By Mr. Hughes:

Q. Let us come to Canada and see if we can apply that here.—A. One minute, sir, that is not my proposition. I am not suggesting to you that you should do anything like that as it was done in Austria. I am simply telling you that that took place in Austria.

[Major Hugh Douglas.]

By the Chairman:

Q. Did Austria assist in any way, except by the issuance of paper money?—A. Yes. Owing to the fact that the cost of the loaf was only ten kronen in place of 60 kronen, the actual amount of paper money, of currency, required for that transaction was less than it was before.

Q. But the State had to assist someone, the producer?—A. Yes, it assisted. If you imagine the baker having an account at a bank and passing in his account for the delivery of loaves, together with ten kronen per loaf it simply had written up in the account of that baker some money.

Q. Do you know as a matter of fact that that was the method of the operation, I mean from personal experience and knowledge?—A. No.

Q. Then I was going to ask you, when you speak of credit operations in Austria, do you mean that as being exactly the same as we understand and what you know to be a credit operation in a Canadian bank or an English bank?

The WITNESS: May I have that question again?

By the Chairman:

Q. What you call a credit operation or what we call a credit operation in Canadian banks is the result of an arrangement by which, for consideration, a bank gives a credit to a customer?—A. Quite so.

Q. In Austria was the credit operation carried out in the same way in recent years, or was it an unlimited issue of paper money being handed out? —A. I should say the operation was substantially similar to the creation of a credit in the ways and means account in the Bank of England by one of the great spending departments of Great Britain. I do not know how you do it here.

By Mr. Hughes:

Q. I understand the witness, however, to say, that this system, adopted by Austria, is not his system?—A. Well, it was obviously Austria's system. I am not going to say where the idea originated, but it was Austria's system anyway.

Q. I understood you to say it was a sound system. Am I correct in that? —A. I did not criticize it at all, one way or another. I simply said that thing happened and that at the time that thing happened, certain conditions obtained in Austria. That is as far as I am prepared to go.

Q. Is that system you would wish to see introduced in Canada similar to the system you have stated?—A. Not necessarily, but there were certain principles of that, reduction of price below cost, which I considered to be essential.

Q. This would be increased with that principle. Take myself for instance, I would get the things I needed, the useful necessary things of life for less than the prevailing price.—A. For less than you would be able to get them, let us say, at the present time.

Q. Less than I would be able to get them at the present time?—A. Undoubtedly.

Q. And that somebody would pay the difference?—A. If you like to put it that way.

Q. Who would make up to the owner the difference?—A. That, as I am trying to emphasize, is entirely a question of detail. It is just as much a question of detail as, in a sense, whether you have national or private banks, or whether you have national or private railways or anything of that sort. It is the transportation that matters.

Q. Then either the national credit in Canada, represented by Mr. Fielding, or the banks, would pay the difference?—A. If you like to put it that way.

[Major Hugh Douglas.]

Q. I am quite sure the banks would refuse.—A. Might I just—as I feel that that was a shot that went home—.

Q. It is not intended for that. I wanted to get at the—A. I should like to examine that, because I see no reason why the banks should refuse, none whatever. At least, I do not see any reason which could be put on the table why the banks should refuse. I can see how the thing can be done, and I can explain to you, given time, how the thing can be done so that the banks do not lose by it. There is no question of loss by the banks.

Q. The banks could do that without losing?—A. The banks could do that without losing, certainly.

The CHAIRMAN : The witness is willing to go on and elucidate that point, and I think you had better let him do it.

The WITNESS: I was going to put before you, when this series of questions arose, and I think we had got to the stage where I was proposing to put before you a skeleton of the scheme. I will say that is not a scheme which we can take and plank on any public exactly as it stands, but I think it will explain to you the sort of thing that can be done. Supposing that you arranged with a large number of departmental stores that they should sell the whole of the products that they dealt in at cost, plus 10 per cent on turnover, not 10 per cent on their capital, or anything of that sort, yet 10 per cent is not vital—one, two, three, four, five, six, seven, eight or nine per cent, it makes no difference, plus an agreed percentage on turnover. In consideration of their agreeing to put the costs on the table in proper form, at proper periods of time, you would authorize them to issue with each sale—the sale would take place in the ordinary way—the ordinary amount of money, the ordinary price, *et cetera*. You might authorize the departmental stores to issue vouchers to a percentage of the purchase cost, and such a percentage might be given which would meet the provisions that I shall come to later on. These discount vouchers might be turned in to the private accounts of the ordinary purchaser at any bank and the bank would treat these discount vouchers as a credit.

By an Hon. Member:

Q. Why?

The CHAIRMAN: Let the witness proceed, please.

The WITNESS: They would write up the private account of the amount of the person concerned by the amount of these discount vouchers. Now, they would get, at a certain period of time, over any given period of time, three months, or six months, anything you like—that is only a very general sort of proposition—they would get a credit from the Government to make up the amount of these credits which had been applied to private accounts. That would be a transfer of the collective credit of the country to the private account of the individuals of the country. Now the credit of a country is something of which the country or the officials of the country stand in beneficial trusteeship for the individuals included in that country, and if it is a beneficial thing to transfer that public credit to a private account, then that seems to me to be a perfectly legitimate operation. The result of that would be that you would have these stores that we are discussing—they would be in a position to under-sell by a very considerable amount—it might amount to any considerable amount, perhaps more than fifty per cent; they would be able to under-sell anybody who would not agree to the provisions which might be made for the working of this system, such as the keeping of proper costs and things of that sort. It would not mean that two or three stores would sell the same article at a flat rate, because it would be a discount, a credit discount of percentage on cost, and the costs of these various stores would vary so that you would still have exactly the

[Major Hugh Douglas.]

same competition that you have at the present time, but you would simply lower the range of prices. The whole validity or the whole sanity of anything of that sort, of any proposal of that sort, rests on whether you agree that public credit is only held in trust for the individuals of the community. If you agree that it is so and if you agree that at the present time you cannot get goods over from the producer and the distributor to the consumer because there is not sufficient effective demand, you must unquestionably provide the effective demand, and you are using public credit for the general individual benefit.

By Mr. W. F. Maclean:

Q. Is that not what the United States Government did with their 4,000 female clerks at Washington in providing decent accommodation and proper meals at cost price during the war, all of which was repaid, but it was on the basis of the demand more than for this accommodation and it was given to them.—A. I am not familiar with that particular instance, and I cannot answer. What I would like to make clear is the difference between that proposition and a subsidy. A subsidy is money which is collected by taxation and applied to a particular purpose, the reduction of prices or anything of that sort. It is taking money from one part of the process and putting it on the other. This money for this process is not collected by tax. It is derived by a creation of credit, and the fact is that there is a possibility for the creation of this credit. That possibility and the mechanism are in existence at the present time, and is the monopoly of the banks to a large extent.

Q. Unless it is taken by the Government?—A. Unless it is taken by the Government.

By the Chairman:

Q. Can you help to make that clear to us by an illustration of say a $100 or a $1,000 purchase?—A. My rough proposal?

Q. Yes. That might make it clear.—A. Let us imagine a man is buying an automobile. The automobile is valued at about $2,000 as an ordinary price. Say it is a $2,000 automobile. He goes to an ordinary recognized dealer, who has the automobile that he wants, and he pays $2,000 for the automobile. That finishes the transaction as far as the agent is concerned. It is carried on at the basis that it is at the present time, but because the agent, with the assistance of the people behind him, the manufacturer, *et cetera*, agrees to accept an agreed percentage on turnover only, which is in addition to the cost price of the automobile, which of course is always available—because of that he is empowered to issue a certificate that an automobile, valued at $2,000, has been sold to a private individual and he has got the money. We want you to issue a voucher representing a discount of, let us simply take a figure, 25 per cent. Twenty-five per cent of $2,000 is $500. That is simply a piece of paper. It shows a discount on this sale of $500. He takes that discount paper the next time he goes to the bank, for any other reason—and it is not really necessary it should be a bank—and he turns it in just like a cheque, and the bank receives it just like a cheque and credits his account with $500. It has not affected the currency in any way at all. It is simply a book transaction, one way or another. At the end of an agreed period of time the bank submits to the individual the certificate that it has credited to this particular purchaser of the automobile, together, of course, with many others. It has credited him with $500 on the basis of this discount voucher. The Government sends the credit in any form which may be agreed, again, it only being a book entry to a bank, allowing them to write up their credits by the amount of this $500. That is in effect a transfer of national credit, public collective credit, to a private account. The transaction is then

finished. The consumer has got his automobile; the manufacturer has sold an automobile that he would not have sold before. No effect is made on the currency and everybody is happy.

By the Chairman:

Q. What could the Government give, unless it would be currency?—A. It does not give anything.

By Mr. Good:

Q. I would like Major Douglas to follow that up and give us some indication of the probable effect on prices, on production and consumption. I am very much interested at this stage, and I think a great many others are, to have some expression of opinion as to what would be the probable effects on prices generally, on production and consumption, on international trade.—A. Well of course, it would be agreed that that question covers a very wide area, but the first part of the question would be, what is the effect on prices. The first effect on prices is that you get a $2,000 automobile for $1,500. That is the first direct result.

Mr. HUGHES: That is quite apparent.

By the Chairman:

Q. Make it clear. I may be stupid about this. There must come a settlement day sometime between the bank and the Government?—A. We have had that.

Q. We have had it, but I did not get it. Refine that, just a little bit, and tell me what the Government does to enable the bank to have $500 more credit. —A. It does the same thing that in the first place a bank does when it transfers from its loan account a sum to the credit of a person, an individual person, which he might draw as an overdraft.

Q. But Major, if I were borrowing a million dollars from a Canadian bank and I gave them two million dollars worth of Victory Bonds, notes, as collateral, that is something behind the loan, because it is quickly realizable, convertible into gold notes or anything. In this case apparently you put up nothing at all? —A. There is the greatest possible thing that you can possibly have under the circumstances, and that is the national credit.

Q. Make that a little plainer. I just want to understand what your scheme is.

Mr. IRVINE: Could he answer the question put by Mr. Good and take up credit a little later?

The WITNESS: The first part of Mr. Good's question referred to what would be the effect on prices. As I was saying, the effect is you get your $2,000 automobile for $1,500. That has altered the ratio between the amount of purchasing power distributed and the price taken back . You will see where that impinges on the first part of the discussion. The anterior result would be that the automobile manufacturer could quite clearly sell more automobiles. Given the same sort of automobile this company has got, you can sell more of them at $1,500 than you can at $2,000. That increases the productive demand. I am sticking strictly to the question of prices at the moment. He makes more automobiles, and his actual costs decrease. The result of that is to, after a short time, decrease the original sum that he had to charge for the automobiles of $2,000 and to bring the price down still further. That goes on for some time until the equilibrium is reached where his overhead charges and his wage charges begin to increase, and he cannot bring his costs down any more, but the effect of the process is to cause the actual cost of producing an automobile to decrease. We

are only dealing for the moment with this specific case of the automobile. I have no doubt Mr. Good would say "what is the effect on other things." The effect on the prices of other things is rather complex for the moment, but it frees $500 which would have been spent on an automobile to be spent on something else, and for the moment we are assuming that the something else is not subject to this process. The result of that is to increase the demand for this something else, and for the moment because the demand is increased it is probable that the price would go up. It would not go up very far before somebody would suggest that as it had been possible to bring down the price of automobiles in that way, it would be possible to apply the same process to the thing which had risen in price; and I think the logical conclusion would be that the system would extend. That is broadly the process that I see in regard to prices. Now, the second part of your question—

By Mr. Good:

Q. Would you pardon me just before you leave that; what is to prevent a continuous increase in prices such as we find when we have this free printing of what is called fiat money, you know what I mean by the question?—A. Yes.

Q. What is to prevent that?—A. Because the rise of prices which occurs in connection with the printing of what is referred to as fiat money, takes place in accordance with the assumption that the price of an article is what it will fetch, and if there is more money in the market in relation to the same amount of goods, and people want the goods, then it is clear that the articles will fetch more money, and that is what causes the rise of prices in connection with what is called fiat money. That takes as an axiom that you have a rise of prices in connection with the increased supply of money, but if you apply the increased supply of money, if you like to put it that way, to the reduction of prices, that is a condition of affairs which cannot possibly take place, because the application of the money does not take place unless you get the fall of prices. It is impossible, if I say I will let you have $5 towards an article which costs $20 if you charge $15 for it then you do not get the $5 unless you charge $15 instead of $20; and the provisions which can be made to ensure that that takes place are perfectly obvious, by means of such a thing as the discount voucher or something of that sort; so that the rise of prices cannot possibly take place.

Q. Just before you pass to the second question, there must be a limit to this process, there must be some limiting point, is there not?—A. Yes, there is this limiting point which I am afraid aroused a little amusement but I must go over it again. We have been discussing for about two days, and I have been trying to emphasize the fact there is no production problem, that the productive system is straining to produce far more than it is producing at the present time. The reason it does not produce more than it does at the present time is not because people do not want it, but because they cannot buy it. If the productive process can produce more than it is doing, and people can physically consume more than they are doing, what they want is an increase of purchasing power to equate those two. The increase of purchasing power which is required to equate those two, that is to say—I will make it still simpler--to increase the purchasing power which is required to draw on this unused capability of production and delivery is represented by this discount. If there is no unused capacity to produce and deliver there can [not—Editor] be a discount. The justification for that discount is unless you have a reduction of prices people cannot draw upon that unused capacity to produce and deliver. That is the justification, and that is the basis on which that discount rests. Now, then, you say must there not come some end to this process? The answer to that of course is purely hypothetical, that is, can the people consume as much

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as a production system can possibly deliver? I can only give you my personal opinion about that, because nobody has tried it except perhaps during the war. All I can say is I do not believe for a single instant that the possibilities of consumption can ever reach the possibilities of production.

By Mr. W. F. Maclean:

Q. Was that the line on which Austria was moving when she was interrupted?—A. Only very tentatively I think.

By Mr. Kellner:

Q. Major Douglas, before leaving that automobile proposition, suppose you went to your agent and bought your automobile to-day, and there was collusion between them, what would there be to prevent the agent going back and selling you that same car to-morrow, and each one of you would get your credit slip for $500?—A. The answer to that is merely the sort of thing you are always coming up against in organizing any sort of a system. You have a system of numbered credit vouchers, let us say—I am making this up in my head at the moment—you would have a system of discount vouchers which would bear the same number as the automobile engine and the chassis number, let us say, and then you would simply issue that particular discount voucher with that automobile.

By Mr. Cahill:

Q. Suppose it were a calf, how would you mark it?—A. I suppose you would have to brand the calf.

By Mr. Good:

Q. May I ask another question: supposing it is practically impossible in any particular industry such as farming as it is carried on in Canada to keep cost accounting, how would the theory be applied to such an industry to determine say the prices of farm produce?—A. Well, I propose to answer that question, but I should like to say that that is an illustration of the sound grounds that I think I take when I say I am not putting forward a detailed scheme. That is why it is clearly and obviously necessary to spend a great deal of time in actually investigating the difficulties which have to be met in regard to a thing of that sort. No doubt a thing of that sort might be a difficulty, but I can see there are plenty of ways of getting over it, that you can establish a cost system. It was done in England during the war for agricultural produce, quite satisfactorily; it worked very well, but for some reason it was knocked on the head and has gone out of use. But there was during the period of food control a very admirable cost system in use in England, and the actual cost of production of agricultural produce was ascertained very carefully, and that would, I think, be the thing that would have to be done here probably. But there are ways round it in any case.

Q. May I ask another question, dealing with something that was taken up yesterday or the day before; do you regard it as true that banks under the present system can control or affect prices? It has been denied by at least one very prominent banker that the banks can or do affect prices?

The CHAIRMAN: Why not let the Committee centre their questions upon the matter we have been discussing and let your question stand for the present?

Mr. GOOD: Very well.

The CHAIRMAN: Does anybody wish to ask Major Douglas any questions?

[Major Hugh Douglas.]

By Sir Henry Drayton:

Q. What do you do in your cost fixing when you have different bases of cost? We had cost fixing and we found we had to drop it because the cost to one man was entirely different from the cost to another; what do you do there? For example, in farming we have one set of costs in one province and another set of costs somewhere else. We found, for example, in milling that one overhead would enable the smaller mills just to get along and would enable the larger mills to make altogether too large a profit; how do you treat costs there?—A. The proposition, the very intensive proposition which I am putting before you at the moment, involves the application of a fixed discount to a variable cost.

Q. In the same trades?—A. Yes. So that in that case you see you would have people in the same trade selling their products at a generally lower level, but still at a variant price; so that naturally what would happen would be that the man who produced cheapest you would allow him a profit on turnover—

Q. There again the prices are just the same, although you produce an agricultural article more cheaply in one province than the other the prices are practically the same, they sell at a common market?—A. In this case they would not be. A statement of cost is undoubtedly in some form or other an essential in such a proposition; and whatever the cost is you have the agreed percentage, commission or profit, or however you like to put it, on turnover for the last dealer in the thing, and you apply to that final price a flat discount which applies to all sets of costs of that kind, probably to all sets of costs of all kinds. Let us say that is 25 per cent, let us say the unit cost of an article is $100 in one case, and $150 in another, and applying the discount of 25 per cent you get the selling price of the first man as $75, and the selling price of the second man, $112.50—25 per cent off $150. The two prices vary just as they vary at the present time. What happens as the result of that is, of course, up to the limit of capacity you buy the product of the cheapest man, which is of course what you should do, but his capacity probably comes to an end, and you are forced back on the products of the second man.

Mr. GOOD: There would be a rush order to that party.

By Sir Henry Drayton:

Q. Let us see again, supposing we take something where the prices are the same, you have a large flour mill with a low basis of cost, and a small flour mill with a higher basis of cost, they both sell at the same price?—A. But they would not in this case. At the present time they make a protective ring to the disadvantage of the consumer.

Q. It is generally fixed at the price of the most expensive?—A. Yes, and that is to the disadvantage of the consumer. What we are trying to do is to get a position in which more consumers can get the article, and we enable all these people to get the same amount of turnover that they got before probably; but their prices differ.

By the Chairman:

Q. If this $500 credit slip is not a convertible document of value, then the automobile is being sold below cost, is it not?—A. The cost looked at from that point of view is simply an issue of purchasing power, that is all it is; it is simply an issue of a certain number of tokens which enable him to draw supplies from the general production. Those tokens as tokens need not necessarily have cost anything anyway, and the object you have in view is to get the goods over from the producer to the consumer. It is the basis of the whole of this argument, that you do not succeed in doing that at the present time, and this

is a suggestion as to how you could get them over. The actual fact that you get over more tokens through the productive process than you do through prices does not really matter at all, it is only a ticket system, the present thing is only a ticket system, but we have been so hypnotized with the idea that there is something real about money that it is very difficult to learn that it is only a ticket system.

Q. In your book, the man who is collaborating with you used the illustration of coal in England; what is his name?—A. Orage.

Q. You were to sell coal for domestic purposes in England below cost, coal for industrial purposes in England at cost?—A. Yes.

Q. And export coal prices were to be whatever you could get?—A. Yes.

Q. Why do you divide it up in that way, or why did Mr. Orage?—A. It was my scheme. Well, because the fundamental idea is that the business of the country is carried on for the benefit of the individuals in the country, and the object of selling coal to consumers below cost is because the consumers represent the individuals of the country. There are not any individuals who are not consumers, and you make provision in that specific scheme, which I think is quite unsuitable for Canada; it has never been suggested for Canada.

Q. I would think so?—A. The object of that specific proposal was to get the coal over to the consumers at such a price as they could buy it at. It may be of interest at the present time to mention that the cost of coal to the consumers in England is 62 shillings per ton, and for the same coal for export purposes it is about 20 shillings per ton; that is to say we pay three times as much in England as they do in Argentine for the same coal.

Mr. GOOD: That is an extraordinary thing.

By Sir Henry Drayton:

Q. Would you apply this to imported articles or merely domestic articles?—A. We regard all imports from this point of view as production, and all exports as consumption.

Q. Would you give this discount on imported goods?—A. Yes, just the same; but that is not essential; it is not a matter of principle.

By the Chairman:

Q. To carry out your scheme in Canada it would be necessary I think to have all the provinces agree, because after all in most respects the scheme would come in under provincial jurisdiction; how would the thing work out if Alberta adopted it and Manitoba said no? Could one go along by itself?—A. There would be a great rush of immigration to Alberta.

Q. Would you make them happier there?—A. Undoubtedly.

Sir HENRY DRAYTON: I was wondering if the Major could not give us a concrete illustration, I think he should before he goes, as to how exactly his ratio between production and consumption works out, particularly having regard to the fact that he complicates the question of production by imported articles?

Mr. RYCKMAN: I wish to make a short statement before we adjourn. I would be unwilling that any of the committee would be of the opinion that it was altogether accepted that in 1921 the condition of Austria was prosperous. I happen to know that it was not. There was a class of the new poor whose hardships were such as they had never experienced before. One of the most human documents I ever saw was addressed by the employees of the Courts of Justice in Vienna to those engaged at Osgoode Hall, Toronto, prefacing the appeal with the statement that being in kindred employment we ought to be sympathetic, that we had no idea of the hardship that was obtaining with

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them, that the purchasing power of their remuneration had so lessened that they were in want, absolute want, and going the length of suggesting that even if contributions in money could not be made, perhaps contributions in kind might be sent over. This was in 1921. I quite admit that some of the farmers with some of this money that was so freely in circulation, thought themselves momentarily rich; even the industrial classes with what they were receiving in these factories thought themselves well off. At the same time there was a stratum in Austria that was undergoing such hardships as, please God, we never may experience in this country.

The WITNESS: I should only just like to say in regard to that, the last speaker I think made my case for me. He said that there was a class which owing to the rise of prices was in such hardships as he quite correctly says he hopes we shall none of us experience. That is the whole point. These applications of credit only covered a very narrow area, and the price of other things rose to fantastic heights without the shadow of a doubt, and it was because of that rise of prices that this trouble took place.

The CHAIRMAN: The point you raise is a matter of argument, Mr. Ryckman, and it does not follow we are accepting the view that Major Douglas takes. We will meet tomorrow morning at 11 o'clock, when Major Douglas will be here again. He hopes to finish before the close of our morning session. He will be followed by Sir Edmund Walker of the Canadian Bank of Commerce.

The Committee adjourned until 11 a.m., Thursday, April 26, 1923.

THURSDAY, 26th April, 1923

The Select Standing Committee on Banking and Commerce met at 11 a.m. Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: The Committee will come to order, please. I wish to say to the Committee that we should have notice of any proposed amendments in the regular way under the order of motion, and I think they should all be in by the early part of next week, because I should hope that at the last of this week or the first of next week we should begin to finally dispose of the Bank Act, Bill Number 83. I suggest that the Committee do not meet on Monday morning next. I think the members of the Committee will be satisfied with that. On Monday afternoon Mr. Irving Fisher, of Yale, will appear before the Committee. On Tuesday an appointment has been made to hear the Canadian Federation of Insurance Agents, represented by Mr. Andrew Haydon, Barrister of Ottawa. I hope we shall be able to finish with Major Douglas this morning and also conclude the statement of Mr. Powell, of the Weyburn Securities Bank, who desires to leave as quickly as possible for New York. I think we should attempt to accommodate him.

Major HUGH DOUGLAS, Examination concluded.

Mr. STEVENS: Mr. Chairman, I would like to have the privilege of making a statement, correcting I think, an erroneous impression left on the Committee yesterday by a question and reply by Mr. Irvine and the witness on a matter of importance. I had questioned the witness regarding the Austrian situation, and later on I was called out of the Committee and could not return to that subject.

[Major Hugh Douglas.]

Mr. Irvine put a question to the witness, which I have not under my hand, but in substance it was to the effect that outside nations would not have loaned to Austria unless Austria had good credit or substantial credit, to which the answer was given by the witness that undoubtedly that was true. Furthermore, the witness gave another answer to a previous question to the effect that outside influence had been brought to bear upon Austria, inferring, I think, that Austria in the re-vamping of her financial system was more or less under duress or compulsion.

Now I have in my hand the League of Nations Report, Volume 3, March 1923, which should be studied by the Committee, together with a great deal more that preceded what is in here. I will read just a few extracts to put on record what I think are definite facts for the judgment of the Committee having reference to the question of duress or compulsion, in the report of the Committee. I now quote:—

> "The Committee of Control received from the League of Nations High Commissioner at Vienna the text of the Austrian proposals with regard to the possibilities of a loan. After hearing the views of the Commissioner General and of the Austrian financial experts, it studied these proposals."

Then it goes on with the details of the loans.

I quote that for the purpose of showing that the point of compulsion did not enter. Here is another extract:—regarding the law conferring plenary power upon the Commissioner. I now quote:—

> "This law was necessarily a constitutional law, requiring a two-thirds majority; this involved agreement with the Opposition parties. In the form in which it was ultimately passed the law creates an extraordinary Cabinet Council, consisting of members of the Government and twenty-six members elected by the National Council so as to give representation to the different political parties in proportion to their numbers."

In other words, it was a non-party Cabinet. In addition to that the report declares that a law granting these special powers was voted upon unanimously by the Austrian Parliament. So much for that. Now I wish to give a brief extract from the preface to the report, as follows. This refers to the objective in view in regard to this transaction, which transaction was largely between Great Britain, France, Czecho-Slovakia and Italy, the main part.

> "It aims at enabling Austria to balance her budget in two years, by the end of 1924, and to be henceforth in a position to meet her expenditure with her revenue without either borrowing or inflation. As it was essential, however, that inflation should stop at once, while it would take two years to reduce expenditure and increase taxes enough to balance the budget, it was necessary to meet the deficit of the two years by loans."

This was arranged, and details are set forth in the report. Now I wish to make a brief reference to the new bank of issue which is as follows:—

> "It was an essential part of the League's scheme that the issue of paper money by the Government to meet its expenditure should cease, and that for this purpose a new Bank of Issue, independent of the government, should be created, and should alone have the right of note issue.
>
> "The necessary legislation, including the new Statutes of the Bank, was passed by Parliament on November 14th. The inflationary issue

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> of notes by the Government ceased on November 18th. The capital of 30 million gold crowns required was duly subscribed and the new bank opened its doors on January 2nd.
>
> "The bank is under the control of a Board which includes no official, and with the exception of its President, Dr. Reisch, all its members are elected by the shareholders.
>
> "The operations of the Bank are purely commercial. Neither the federal Government, the Provinces nor the Municipalities issue paper money or can have recourse directly or indirectly to the funds of the bank for their own needs, without paying in gold or securities the exchange value of the notes received. The issue of notes will be kept within fixed limits, the, metallic cover being increased by stages from 20 to 33.3 per cent."

and so forth.

Now, it then records that there was an immediate improvement in the situation and gives a reference to the first balance sheet. I think it is in the end of January. The figures I shall not read. They are all here for anyone who desires to do so. In regard to the return of confidence, there is this extract I would like to read:—

> "Owing to the return of confidence, the supply of foreign currency—at a rate of exchange which within narrow limits remained stable—proved largely in excess of the demand. The 'flight from the crown'—that

is the monetary denomination—

> "was replaced by a return 'flight to the crown.' Foreign securities and currencies previously hoarded were brought back and converted into crowns."

The "flight from the crown" is a phrase that has grown up in recent years particularly; that is that under the inflationary currency there was a flight of gold and other real usable securities from the State. This refers to the return of these upon the re-establishment of the crown by this process. Then it refers to an increase in deposits during the month of January in the savings banks for three months rather, the last three months, of over 500 per cent.

Then regarding the question of unemployment, which was raised by the hon. member for Red Deer I think, and upon which he was complimented for his intelligence by the witness, which I think was wholly due—that point however was stressed, and the report goes on to say, having reference to the witness' statement regarding unemployment, as follows:--

> "It had been agreed between the Austrian Government and the Delegation that 100,000 officials should be dismissed before July 1st, 1924, i.e., 25,000 before January 1st, 1923, and 25,000 during each subsequent half year. The Austrian Government carried out the first stage of this programme practically up to time. On December 31st, 23,651 officials had been dismissed, and by January 13th, 1923, the number had risen to 25,494."

It goes on with some further explanations. One other reference to the general economic and financial condition, which has a little further reference to unemployment.

> "Austria has not been able to avoid an industrial crisis, involving extensive unemployment. During the last quarter of 1922 the number of unemployed rose from 57,849 to 120,525 in December."

The reason for it is this: No one denies that there was not an increase of unemployment, but it is desirable that the Committee should have before it

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actual facts and not simply statements which sometimes gives an impression that there was an altogether extraordinary position. I have given you the figures in the quotation. The quotation proceeds:—

> "It was, however, foreseen that this must happen, and when the Council approved the plan for the reconstruction of Austria, special attention was called to a passage in the report of the Financial Committee, in which it was pointed out that Austria has hitherto been living upon public or private loans which had voluntarily become gifts; that the new advances must be used for the re-establishments of public finances and not—as in the past—for current consumption; that therefore Austria would have to consume only what she could produce; and that the only alternative to collapse into a chaos of destitution and starvation was a very painful transition period of reform."

The reason I read that is to show, as I tried to state yesterday, and I think the witness agreed with me on that occasion, that any nation adopting the inflationary process must reach a point where, as this statement says, collapse into chaos and so forth will occur; and in order to recover from that position, or on the other hand to avoid that position they must pass through what is described here as "a very painful transition period of reform."

Now I think, Mr. Chairman, that it is desirable that this should be placed on record, and I merely wish to add that I think the Committee and every member of the Committee ought to study that report in detail, as well as many other reports which preceded it, leading up to the events referred to and recorded there.

The CHAIRMAN: Now, Major Douglas, will you proceed?

Major DOUGLAS: I have listened with great interest to the statement which has just been made, and I have really nothing to add to it. It does not affect my statement of yesterday at all.

There is one point I should like to make clear in regard to certain statements I made yesterday, in regard to the fact that, as I see it at any rate, the present situation arises out of a lack of purchasing power on the part of the people for whom the industrial system undoubtedly exists, in any sane conception of it, that is to say the consumer. There is no sense in having a production system unless you get the products of the production system consumed. The consumer came before the producer, or at any rate the need to consume came before the production, we will say. It is very commonly imagined—particularly by what I will refer to under the omnibus term of Socialism—and contended, that the reason that the poor cannot buy enough is because the rich can buy too much. And there I must emphasize what I said in another place, that I am not setting up as a sentimentalist, I am not here as a representative of the poor, or anything of that sort. I am not so poor that I cannot occasionally buy a meal for myself—I am merely stating facts—but it is very often suggested that the reason that the poor cannot buy enough is because the rich can buy too much. In other words, that the real trouble in regard to the admitted inadequacy of the financial system is the inequitable distribution of money, and if you once begin to admit that, then you see that the remedy is quite easy; it simply takes some form of taxation; you take it off the rich and you give it to the poor. That seems at first sight very simple, and that is the sort of thing to which most attention is directed; but I want to make it clear to you as an addition to what I said yesterday, that that is not an adequate explanation.

There is a recognized authority on this subject of the distribution of national purchasing power. He is recognized because he is retained by all the people that I suppose you would mostly say I am attacking.

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He is the recognized statistician of the British banks and so forth. That is Professor Bowley who stated that the total British income—I can only give British figures, but they refer very much to pretty nearly any country I suppose in regard to their proportion—the total British income in excess of £160 per head per annum is only 250 millions which would mean if distributed to ten thousand heads of families—and remember the population of the British Isles is about 45 millions—it would mean £25 per annum per family, in excess of what they have at the present time, assuming that this distribution did not reduce the production of wealth, which of course it most undoubtedly would. If you have taxation above a certain level, you begin to seriously decrease the number of people who can employ what we call the luxury trades, and you would of course begin to decrease the actual production and would also then begin to decrease the divisible income in that way. I quote those figures to make it as clear as it is possible to make it that there is no solution of this lack of purchasing power which at any rate we say is the core of the whole trouble—there is no solution by taking it off the rich and giving it to the poor. The fact is that there is not sufficient available purchasing power to buy the possible available product. That is the point, and that situation is only met at the present time by a strenuous competition for export markets to get rid of this production which cannot be bought at home, and so to get from the export market an additional number of tickets with which you can keep the situation going for a time in the producing country. I wanted to make that explanation to remove any possible misunderstanding.

The CHAIRMAN: Mr. Douglas is available for questioning, and please put your questions as briefly as possible and as quickly as possible.

By Mr. Good:

Q. I was hoping somebody else would start, but I have a list of questions that I would like to ask. I understood the witness to say yesterday that the difficulties in our economic system which he outlined existed before the war, and that therefore in his opinion the dislocation of industry and trade during the war and by the war which has lasted I think up to the present, could not be held responsible for the present situation. I have heard it said that the whole trouble at the present time is the dislocation due to the war. I would appreciate a little further explanation of his point of view in that connection. —A. I should put it in this way, that the economic result of the war was immensely to stimulate production. The war provided an enormous outlet for production because it broke up producton and used it or wasted it, as you like to put it, just as fast as it was produced. Accompanying that immense growth of production, or if you like preceding, was the creation of an enormous body of fresh credits. Those credits were distributed through the agency of wages and salaries and so forth, particularly of course wages; those credits were distributed to the general population. The result of that was to put into the hands of the general population a greatly increased capacity to buy. The result of that was that first of all you had a tremendous rush on the accumulated stores of goods in the shops and so forth; so that most unquestionably the standard of living rose. Following that was the inevitable result of an increase of what we might call purchasing power unaccompanied by any change of financial system. The fundamental proposition of the existing financial system is that the price of an article is what it will fetch, and, other things being equal, if you increase the amount of money which is available against a given amount of goods, a process of rise of prices will take place under the existing arrange-

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ments. That rise in prices is not inevitable; that is the point that it is necessary I think to bear in mind in considering those statements that were made in that League of Nations Report over against the statement that I made yesterday. The rise of prices is not inevitable; but if the rise of prices is allowed to take place, if the issue of fresh purchasing power is made in such a way that the rise of prices is allowed to take place, then the effect of the inflation, and inflation undoubtedly is self-compensatory—that is to say, that only for a very short time is there a real increase of purchasing power—the only thing which enables the people to buy goods, more money for a short time while that pure inflationary process is going on, is the lag of prices behind the issue of fresh purchasing power. As soon as this gap between prices and purchasing power is made up, you are exactly where you were before, but the reason there of course is you have allowed prices to rise. Now, the question was how was this only an extension of what was going on before? And the answer to that is that practically all new production at the present time is financed out of loans. I think you will see very shortly, very clearly, that that must be so. If you consider the position of two men with a capital of $100,000 starting in the same business, one of them adopts the policy that he will put the $100,000 entirely into plant, into factories, machinery, and so forth, and he will rely on bank loans through the discount of bills for overdrafts or something of that sort, for the necessary means to carry him over through the wage paying period from the time he gets an order to the time that he delivers the goods and gets the money for them. The other man says he will only put $50,000 into a factory and plant, and will keep the other $50,000 in the form of liquid capital, as the phrase goes, in order to finance himself; and they both want to pay we will say 10 per cent of their money. The first man has a plant which is twice the size of the second; he has a possible output of twice as much as the second man, and the consequence is that either he can make twice the profit, he can turn out twice as many articles making the same profit on each article, and therefore make twice as much money, or alternatively he can reduce his price. Making the same profit he can reduce his price by a certain percentage on each article produced, so that he can always undersell the other man. So that you will see from that it is practically inevitable that sooner or later everybody will tend to finance their production through bank loans. Now, when those bank loans are made, they are creations of fresh credit and they are just as much creations of fresh credit as were the creations of fresh credit which took place to finance the enormously increased production of the war; so that you have normally in normal times this continuous automatic inflation going on. There is under our present system a continuous automatic inflation going on. That would normally cause a continuous rise of prices, but that continuous rise of prices is offset in normal times to a considerable extent by an improvement of process which would normally decrease prices; so that you have these two opposite processes taking place at the same time, and as they are in opposite directions they are very apt to mask each other, and you do not see the process going on; but owing to the abnormally increased production of the war we did see the process going on, and prices rose very fast. I think if you will follow that explanation you will see that the process is one and the same thing.

By Mr. Good:

Q. I noticed in the book by Sir Thomas White a statement that we had paid for the war as we went along, and it seemed to me a very striking statement. I wonder in that connection whether you would venture an opinion as to the accuracy of that statement, and also whether or not during the process of the

[Major Hugh Douglas.]

war the world generally got poorer in capital equipment, capital goods, as well as in consumable goods—

The CHAIRMAN: Please be brief in your questions. You precede your questions by a statement, and it takes up a considerable time.

By Mr. Good:

Q. I wanted to get my idea clearly before the witness.—A. I will make my answer very brief in deference to the Chairman and make it simply a statement of opinion. I have no doubt we did pay for the war as we went along, and I have no doubt we have paid for the war several times over since, and that is the answer to the first part of the question. The second part of the question was, was the capital of let us say the belligerent countries greater after the war than it was before the war, and I should say unquestionably and so far as Great Britain is concerned, I think I might quote Mr. Cram, I think it is, who estimated that the real capital of Great Britain on a conservative basis, I mean Great Britain itself, not the British Empire, the real capital of Great Britain after the war was certainly not less than 50 per cent greater than it was before the war; and was probably very much more than that.

Q. Do you attribute that increase in spite of the tremendous waste of the war to the issue of credits during that time and the stimulus to production derived thereby?—A. Most unquestionably; it could not have occurred in any other way.

Q. I have been trying to grasp the fundamental idea of Major Douglas: is it this, that there is a tremendous potential reservoir, if you like, of labour and resources which can only be tapped as we facilitate the transfer of the wealth produced to the parties who consume it, and under the present system in your opinion there is a blockade in the transfer?—A. Both those statements are unquestionably correct, yes.

Q. There has been a good deal of difference of opinion expressed here as to the possibility of the banks under our present financial system influencing the price level. It has been denied by at least one prominent banker. What is your opinion as to the possibility of the banks under our present system influencing the price level by expansion or contraction of loans and the consequent expansion of the volume of money?—A. The banks most unquestionably can exercise an all-powerful influence on the general price level. They can do it in this way: they refuse to finance further production. I am putting that broadly; that is to say that they restrict credits to manufacturers, restrict the discounting of bills and so forth, they raise their rates. The result of that is to make the holders of stocks of goods, I do not mean necessarily shares, but merchandise, the result of that is to make the holders of those stocks throw them on the market because they have to have money to carry on. The result if carried far enough is to make the holders of those stocks go through the process that I was describing yesterday as being one method of getting the goods over from the producer to the consumer, that is to say that the holders of those stocks offer them to the public below cost, and supply the difference in the price they sell at and the price they get by their own credit, thus, in common language, selling at a loss, and that does of course clearly enable the price level to be depressed.

By Mr. McMurray:

Q. Is not there already an excess of production, and if the bank did not refuse loans the excess would still be there?—A. You can only answer a question as to whether there is an excess of production by asking the majority of the people in the country if they have all that they want. If they have got all

that they want then of course there is undoubtedly an excess of production, but I should undoubtedly doubt the existence of a general consensus of opinion that we have all got all we want.

By Mr. Good:

Q. The statement has been made in some of these pamphlets, and by witnesses here, that the increased volume of money, credits included, is due not to any action on the part of the banks, but to increases and decreases in prices, and your statement is challenged as putting the cart before the horse. I am very much interested in getting that matter cleared up?—A. The only specific instance —I am afraid I have not got that little booklet "Banks and Banking" here—but the only specific instance I know in regard to that statement, is the statement in that book, that it was the fall of prices which caused the shrinkage in credits and so forth.

Q. That has been stated several times here before the committee?—A. Of course it is clearly a question of the fact, and so you can only quote authorities on the facts; and that statement is directly in opposition to the statement of Mr. McKenna at the meeting of the London Joint City and Midland Bank.

By the Chairman:

Q. That is the contraction of credit preceded a fall in prices?—A. Yes, that is his statement.

Q. The Board of the Federal Reserve of the United States give very convincing figures that the very opposite occurred in the United States. I think Mr. McKenna's statement is being rather distorted out of its proper place; it is only a general statement?—A. Well, sir, this is what you might call the logic of it.

Q. That is a fact, Mr. Douglas, that a fall in prices did precede a contraction in loans and credits of the United States, and here again the United States currency system is the same as England's; normally I mean, they are on a gold basis. In England you got unemployment and in the United States you did not get that. Which is the cause and which is the effect?—A. But they did have it; they had six million unemployed in the States. In any case there is this to be said in addition perhaps as bearing on the subject, that preceding the restriction of credit—and it may bear on the exact meaning of these statements—preceding this restriction of credit was a definite warning that the restriction of credits was going to take place, and the result of that was to cause everybody who knew anything about things to throw their stocks on the market, to get out before the fall of prices got too great, and that would tend to cause a fall of prices.

Q. Nobody of standing in England objected to the contraction of credit, did they? A certain number of people think the contraction was too rapid; does not that represent the variation of opinion in England on this question?—A. I think there are really all shades of opinion on it.

Q. Generally speaking, is that not about correct?

Mr. IRVINE: The more general the opinion the more likely to be wrong, I should say.

By the Chairman:

Q. Among bankers and financial students?—A. I should say that the opinion was rapidly veering from any agreement at all with the deflationary policy to a very strong tendency to challenge the policy as a whole, that I think is the best answer that I can give on the subject.

[Major Hugh Douglas.]

By Mr. Woodsworth:

Q. Would a return to the so-called gold standard be desirable, or would it materially affect the situation at the present time?—A. In the first place, I believe that in any recognizable meaning of the words return to the gold standard, the thing is in the first place fundamentally an absolute impossibility. That is, if you are going to say that a return to the gold standard means an absolute free market for gold in Great Britain and an absolute convertibility of forms of legal tender into gold on demand, I think that such a thing would be absolutely impossible. But quite apart from that I am perfectly certain that a continuance of the policy of basing your credits on currency and tying in any fixed way the currency to gold is bound to create both a political and an economic catastrophe. I am absolutely clear about that.

Q. We are told it is absolutely essential that we should have gold in order to carry on our international trade. On what other basis could we do it?—A. The first part of that question of course is simply a statement, I think it is perfectly true to say that it is an interested statement by people who hold the gold. Nobody will take any form of currency, money, simply for the intrinsic properties of that money; they only take it because it is again exchangeable into something else. If you create and demonstrate the absolute certainty that any form of currency is reconvertible into goods and services, then that form of currency is absolutely suitable for international trade.

Q. As other less advanced nations gradually adopt our present financial system, what will be the effect on the older established countries?—A. The effect of the gold standard and of the general principle of basing your credits on your currency and not basing your credits on your capacity to produce and deliver goods, the general effect of that is to make it impossible for the producing country to absorb its own production. As the world becomes more generally industrialized, more countries assuming the existence of the gold standard, using that as a general phrase, the more countries get into that position. The result of that is a fiercer and fiercer external competition to export, and a more strenuous competition for external markets to dispose of the stuff which you cannot sell in your own country, and to dispose of it externally with a view to getting export credits into the country to keep your machine going. The inevitable outcome of that situation is war; there is no other outcome. The economic competition becomes so strenuous that eventually some further factor than mere economic competition is bound to intervene, and that of course is war.

By Mr. Good:

Q. Have you any reason to believe that these forces were operating prior to the last war, and leading to it?—A. Yes, I have considerable reason to believe that. I cannot in the least pose as a general authority on these questions, but I can only tell you that it has been suggested to me that really the core of the last war was the determination on the part of Germany to become dominant in South America, particularly in Brazil, and to some extent in the Argentine, and that she had reached a position in which her necessity for exports forced on her by exactly this situation was such that she could see in sight no market over which she had sufficient control except Brazil and South America generally, that she was ringed round economically by other nations to a very large extent, except in those places, and that in order to really exploit the South American market she had to become dominant politically in South America as well as economically in the ordinary sense of the word. She already owned most of the property in Brazil that was owned by anybody outside Brazil, and her object was to have that war quickly and sharply, and get it over in about three or four months, and be then in a position to defy the Monroe Doctrine, and to exploit Brazil. I am only giving you this—

[Major Hugh Douglas.]

The CHAIRMAN: Mr. Good, I do not believe it would pay us to inquire into the origin of the war.

The WITNESS: I was only answering the question.

The CHAIRMAN : Your answer was first rate, you could not do better.

Mr. GOOD: It is pretty hard to confine this investigation very closely.

The CHAIRMAN: You introduced a very wide subject, and I am afraid it will be in debate for centuries.

The WITNESS: Probably.

By Mr. Good:

Q. The witness was detailing yesterday a hypothetical example of the proposed system. It occurred since then to ask him whether or not there would be any possibility of applying this proposal to the much desired getting of Alberta coal into Ontario—we are up against a serious situation in the matter of getting coal, freight rates, and so on—is there any possibility in your judgment of applying it to such a problem?—A. I should never think of applying any general principle to a specific case without investigating the specific case.

By Mr. Woodsworth:

Q. Just in that connection; we have had more or less the outline of Major Douglas's scheme. We are at the present time faced with certain economic conditions in this country. We also have a well established financial system, and we are in this committee asked to extend the franchise of the banks, which I take it have a monopoly at the present time of the currency and credit of the country. Now, what would Major Douglas suggest practically as the way of attaining his objective? He says we do not need to abolish the banks; what should we do with them? How should we begin to nationalize this credit along the lines he suggests?—A. First of all I should deprecate the word nationalize in regard to the banks, merely because it conveys a wrong impression. There is no connection between this proposition and any particular form of administration. Nationalization as commonly understood is a form of administration; it does not alter principles at all, and these principles do not criticize or impinge in any way on private administration or public administration or anything else. Those questions are left quite unsettled by what I am saying. I should suggest that the position is this: as I see it—and that is why I was interested in that pamphlet which was issued by the banks—the banks demonstrate at any rate to me and to an increasing number of people I think, that really the bankers do not understand what they are doing. Their own statements seem to me to be directly contradictory in themselves, and we have this situation existing which I think is generally agreed to be very serious. It is also perhaps becoming more generally agreed that this serious situation does turn on the financial system and having had a statement made with all the authority that it was possible to make it, that certain things are so in regard to the financial system, it does not seem possible that those statements can really be substantiated. So that I should suggest as a practical proposition that perhaps efforts should be made to induce the banks to come down from this position of authoritarianism which they have adopted as being the only possible authority on the subject, having demonstrated that their authoritative statements are not perhaps bullet proof, and that as a practical proposition having come down from that, they should wait a little bit and have a little general discussion with all interested parties as to how the situation could possibly be bettered without impinging in the slightest possible degree on their legitimate functions; so that you would have everybody very much better off, and you would remove, prob-

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ably—I say probably you would remove—a great deal of the dissatisfaction, or let us say stem the rising tide ot criticism which is being directed against the situation as it stands.

By Mr. Woodsworth:

Q. I do not know that we have got a great deal further along the line I want. Supposing we do get the bankers to come to the state of mind in which they recognize that their authority is not absolute? Then, what? We are faced with an actual situation to-day. I do not know that the witness should hesitate to make certain suggestions as to what could be done. Applying his principles, should the privileges the banks have, be extended to them at the present time? If banks should still be recognized, under what limitations should the privileges be granted? Should we attempt to set up some other financial institution side by side with the banks, and if so under what conditions should it be operated? I should like to have something practical along this line.

By the Chairman:

Q. Can you answer that Major Douglas?—A. No, I really cannot answer that. That is a descent from a proposition which is universally true in every country at the present time, and particularly in Great Britain, with which I am familiar, to a situation involving an investigation of actual detailed facts, and I am not in possession of those detailed facts, so that I cannot make any concrete detailed proposition.

By Mr. Stevens:

Q. Assuming the possibility of putting your proposal into effect, and thus increasing the purchasing power of the masses, does it affect your proposal at all, or the welfare of the community, the nature of the purchases made by the individual receiving the increased purchasing power or the disposition he makes of the increased purchasing power?—A. Oh not at all.

Q. Whether he buys wine, liquors, silk shirts, or anything of that kind.—A. I do not offer any opinion on what he ought to buy at all. All I say is that you want to increase the purchasing power, and the producers want to produce more and the consumers want to consume more. And I do not take up any position whatever in regard to the desirability of what he ought to buy. That does not seem to me to be a sound subject for economic pressure.

Q. It does not make a particle of difference how he expends that?—A. Not a particle.

By the Chairman:

Q. Assuming for the moment that I was the man who purchased your $2,000 automobile, and I could take that ticket which gave me a credit at my bank for $500; supposing I was intending to go to London the next day and I wanted to buy a bill on London, which is a gold transaction as we understand it; and I bought that draft for $500; and supposing a million other

Canadians did the same thing, went through that same process. What would happen?—A. I think I can answer that better by carrying you through a sort of process. In the first place, the proposition made yesterday means in effect that you are now getting something for $1,500 in Canada that you used to pay $2,000 for. In other words, your Canadian dollar has, in goods, 25 per cent greater purchasing power. Now whoever buys your Canadian dollar with the currency of some other country—assuming for the moment that the exchange is in a free market—whoever buys your Canadian dollar, buys it ultimately with the idea of buying something with that Canadian dollar; so that he is prepared to pay up to 25 per cent more for your Canadian dollar

than he previously did because it will buy in Canadian goods 25 per cent more than it would before. So that you will buy, let us say English currency, taking the situation as it stands, at 25 per cent less than you previously had to pay for it. That is to say that your Canadian dollar will stand at 25 per cent premium. That is unquestionable if you assume that exchange is a free market. But it is not a free market. Exchange is in the hands of a very small number of people and they make the price of exchange. The price of exchange does not vary in accordance with the economic condition of the country. It varies very largely in accordance with the price made by the money changers.

Q. What would happen to the Government, who gives in turn to the bank a credit slip for that $500?—A. May I just continue what I was saying?

Q. Yes.—A. The immediate probable result of such an arrangement would be that an attempt would be made to depress the exchange value of the Canadian dollar. This is a practical situation that you might expect, for reasons that it is not necessary to elaborate. The result of depressing the exchange value of the Canadian dollar would make it possible to buy Canadian dollars more cheaply with external currency, for the moment. If those Canadian dollars [were—Editor] bought with external currency, each dollar would buy 25 per cent more in Canada than it did before, you would be buying Canadian dollars at less than their economic value. The result of that would be that everybody would rush to buy Canadian dollars and would expend those Canadian dollars in buying Canadian products. The result of that would be that you would have an enormous increase in production in this country, which, taking things as they stand at the moment, is of course what you are looking for.

The CHAIRMAN: Now Mr. Irvine have you any more questions?

Mr. IRVINE: I have very few to ask, Mr. Chairman. I just want to make sure that I understand the points that have been covered by the witness.

By Mr. Irvine:

Q. Do I understand that in your opinion to regard money as a commodity is proof of a misunderstanding of the definition of money?—A. That is my opinion.

By the Chairman:

Q. Just a moment, there. Would you call gold bullion a commodity?—A. As gold, yes.

Q. Well, it is currency also, because minting is free isn't it?—A. There is not a free market in gold at the present time.

Q. But never mind the present time. Take normal times.—A. Pre-war times?

Q. Yes.—A. There was a free market.

Q. Banks can make settlement in gold bullion can't they?—A. Only as a commodity at its market price at the moment.

By Mr. Irvine:

Q. That is the distinction then?—A. Yes.

Q. Do you regard this commodity view of money as being fundamental to the present financial system?—A. I do, yes.

Q. Is that equivalent then to saying that it is based on a misunderstanding of the definition of money?—A. Undoubtedly, of the proper definition of money.

Q. Is it reasonable , therefore to expect that an institution that does not understand the definition of that commodity which it is handling, might be expected to handle it in the best possible way?—A. Well, I don't think it is reasonable to expect that.

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Q. If money then is used as a commodity, which in your opinion is fundamentally wrong, would it be thus directed to a purpose different from the real definition of money?—A. Yes.

Q. What would you say that purpose was at the present time?—A. I can only suggest that it is an attempt to get a complete control of the process of production and distribution, so long as it has any conscious aim at all. I sometimes wonder if it has any conscious aim at all, but if it has any conscious aim that could be the only sane conscious aim.

Q. Would you say then that the talked of gold basis is a theory rather than a fact?—A. Oh, undoubtedly.

Q. Would you say also that it is a false theory?—A. I would.

Q. Would you be correct in concluding then that in your opinion the system of finance of Canada, of Great Britain and of other countries that maintain the same system, are doing their banking on a false theory?—A. I think I could probably convey a clear impression to the general audience, and the Committee, if I said in regard to that, that there are, for all practical purposes, only two financial theories operating in the world at the present time. One is the gold basis theory, which at the present time is intimately connected with deflation; and there is on the other hand pure inflation, unmodified inflation, such as broadly speaking has been taking place in Germany. Now the world is split by those two theories, and you have, irrespective of any difference of race or of conditions of local wealth, natural wealth or resources, or anything of that sort, two parallel sets of conditions which are common to all countries operating under one of these financial systems. And you have a totally different but equally menacing, probably, set of problems which are existent in the countries which are operating under the other financial system. The object of that statement is to make it clear that the financial system is sufficiently important and powerful to override all differences of race, and all local resources and riches and so forth. Where you have inflation you have one set of problems; and where you have deflation and the gold standard, you have another set of problems. They are a different set, but they are absolutely common to all the countries which are under those systems.

Q. A short time ago we had a practical banker giving evidence—I think it was Sir John Aird—who said that he was a practical banker and did not do business on theory. Do you think he was in error in making that statement in view of your expressed opinion that the gold basis is itself a theory?—A. I think it would be fair to give Sir John Aird—whom I have not the honour of knowing—credit for simply proceeding automatically along well recognized lines, which he probably never thinks about.

Q. You have I think asserted or affirmed that a financial system built theoretically on a gold basis is responsible for the present industrial chaos?—A. I believe that firmly, yes.

Q. Do you believe that the present system of finance, in view of the industrial chaos, can last indefinitely?—A. I do not.

Q. Why do you think it cannot last indefinitely? Do you say as a mathematical certainty it will end, or is there some doubt about it?—A. No, I think it will end, as a mathematical certainty.

Q. Could you state in a few words the reasoning by which you arrive at that conclusion?—A. There are two or three things involved; one is the steady rise of overhead charges in manufacturing in relation to direct labour charges, which further complicates the relation between the purchasing power available at a given moment and the goods to be purchased. That is one thing.

There is another thing, that you have at the present time really no alternative between an almost unmanageable unemployment problem and a policy of

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modified inflation, which, taking the financial system as it is, at the present time, results quite inevitably in a fairly rapid rise in prices. If you follow the first line, and restrict your credits and so forth and try to get back to the gold standard and so on, you are absolutely bound to have a most formidable political problem resulting out of unemployment. If you take the other line you get an equally formidable problem arising out of the rise in prices, and the general kick of everybody against those prices. So that you have no alternative either way.

By Mr. Woodsworth:

Q. May I interject a question there regarding labour costs. It is commonly said that we could place ourselves in a much better position for producing more, by reducing the cost of labour, that our solution lies along that line. Is that true?—A. I think that absolutely no solution at all, because a reduction of costs means nothing else than a reduction of the distribution of purchasing power. Costs are a distribution of purchasing power; so that if you reduce your costs you reduce the money which is out in the world with which to buy your production. So that there is no solution along those lines.

By Mr. Good:

Q. You mean that lower wages would only complicate or aggravate the situation?—A. Whether it would aggravate it depends on an exact examination of such things as overhead costs and so on; but it cannot better it.

By Mr. Woodsworth:

Q. It is said that by economizing, by public economy in the services, we would be in a better position; that is cutting down our expenditure for schools, hospitals, parks and all sorts of public services. Is that correct?—A. It is only correct in this sense; it is a fact that it is absurd to do anything that you do not have to do. That may be a waste of labour and so forth. In the financial sense it may be just correct in this sense, that it takes a certain amount of money off the market in relation to purchasable goods, and so has the effect of deflation. That is to say it reduces the demand for those goods, and therefore tends to keep the price from rising. That is all you can say about it. But by reducing the demand for those goods, it also increases the unemployed problem.

By Mr. Irvine:

Q. You have found in your study of this question, I gather from your statement, that the more extensive use of credit has resulted in more production, more consumption and less unemployment. Am I right in that?—A. As rather a disconnected statement, that is undoubtedly true, yes.

Q. And that the opposite is true, when contraction of credit has been effected, it results in increasing unemployment and want?—A. Undoubtedly.

Q. As evidenced by the illustrations which you used from the Continent of Europe?—A Yes.

Q. What in your opinion would be in the best interest of international bankers in regard to the stabilizing of the financial system? Would it be in their interest to maintain the present financial system as interpreted by you?—A. I cannot speak for them; I do not know what they want; but all I can say is that they look as if they were trying to continue it.

Q. Would you say that from appearances they are more interested in retaining the present financial system than they are in conveying the produced goods to needy consumers?—A. Yes I think that is so. I do not think that

they think in terms of goods and services at all. That is the impression that
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the situation gives me.

Q. It would appear then that the financiers have a direct interest internationally in maintaining the present financial system?—A. Yes I think that can be said.

Q. If then pressure was brought to bear by international bankers on Austria to bring her from her issue of her own credits, back into the financial fold, is it likely that that pressure would have been made apparent in the deliberations of the League of Nations?—A. Absolutely not.
They would not be quite so silly as to do a thing like that would they?
—A. I don't think they would.

Q. At least we give them credit for more intelligence than that. They would be more likely to bring their pressure to bear on the Austrian Government from within Austria than to make the plea come from outside if they were wise men; in other words, it is not more wonderful that the Austrian Parliament was unanimous in acceding to this demand, than that the Canadian Parliament was unanimous in granting a Bank charter to the bankers of Canada. I mean that it is not a more unreasonable proposition.—A. It seems possible.

Q. In other words, the so-called soundness of the financial system may be maintained while the industrial situation may become more precarious?—A. That is so.

Q. Because the objective, so to speak, of the economic situation, is not the same between the two?—A. It is increasingly remote, yes.

Q. Does it appear strange to you that while Austria was ostracized for having too much money, the nations wanted to cure her monetary disease by giving her more money?—A. Well, of course I am only giving my personal opinion about Austria, very largely, but it looks as if it would bear investigation, yes.

Q. Would you say the moneys which Austria received from other nations at a high rate of interest had any more real value than the money which she was asked to destroy before the money was received from them?—A. No.

Q. It did not help to get more goods from the producer to the consumer?
A. Not internally, certainly.

Q. Would you mind giving us a definition of credit which would be the basis of your proposition as given to the Committee?—A. Well, that is very easy. The fundamental, the real basis of credit is the ascertained capacity to produce and deliver what is required by the community on whom the credit rests. That is the basis of real credit; the ascertained capacity to produce and deliver.

Q. Would you distinguish between that and the financial credit which we have been discussing?—A. Yes, the financial credit might be said to be the ascertained capacity to deliver money, which is not the same thing.

Q. Could financial credit be considered as an expression of part of the real credit under your system?—A. Yes, for any proper working, or any working of the industrial productive system, and the financial system there must be an intimate relation between the basis of financial credit and the basis of real economic credit.

By Mr. Spencer:

Q. You mentioned financial credit in relation to delivering money. Do you include with that book credits that are placed to the credit of clients through their securities being handed over to the bank?—A. Well, for the purpose of the description of money, anything that would function as money may be said to be money; and to the extent that credits will function as money, they are money.

By Mr. Woodsworth:

Q. How can this real credit be ascertained, by what body and by what method?—A. It is very simple really; there is such a thing in existence now—it is not up to date—but there is such a thing as a census not only of production but a census of possible production. There is always a difference between the output of a given factory and the possible output of it and so forth. That is the difference between the present output of course and the possible output. Those things, or most of them, are on record. That does not allow for a number of other factors that do come in and that is what would be the extension in the manufacturing facilities provided if the payment were made for the manufactures when they are made.

By Mr. Good:

Q. It is not an essential part of your proposal to ascertain that very definitely?—A. No, it is not.

By Mr. Woodsworth:

Q. Without going into the administration end in detail at all, what kind of body would be fit to handle the credit of the country?—A. Allowing everybody the fullest credit for being reasonable, under reasonable conditions, I see no reason at all why the present banking system should not, if necessary function perfectly well just as it does at the present time, under such a proposition. There is nothing in the proposition of itself which in any way affects the functioning of things as they are. The only thing that does happen is that you get everybody very much happier, that is all.

By Mr. Good:

Q. You mean that the present machinery of the banks, the personnel, are fairly competent to appraise a man's credit or what should be his particular share of the nation's credit, is that the point?—A. Ah, well, no; that would not come under those conditions, to such an extent, under their functions. They would appraise very largely his capacity to produce, and the extent to which he should be allowed to employ the public credit. That comes into questions of detail rather, but the actual distribution of the public credit, the amount of public credit which would be distributed to individuals for whom the public bodies are trustees, if they are anything at all that seems to me to be essentially a public matter. The banks, as I see it, would become a highly technical and responsible and increasingly important administrative body. They would administer the public credit for the beneficial ownership of the public, and they would do it very much, to look at, in the way they do it at the present time.

Q. They would become a public service?—A. I regard every form of service as public service; that is purely a question of terminology, whether a man so-called privately administers. If the public gets the good it is a public service.

By the Chairman:

Q. You are opposed to any form of socialistic government; you do not favour that, and you are not very keen on nationalization of industries?—A. I am not.

Q. You do not think either of those things would be very helpful?—A. I base my general dislike of that sort of thing, without being very bigoted, on the fact that I believe all those things tend to get too big, and they become hopelessly inefficient.

Q. Are you against our present social and economic order, that is the capitalistic or competitive system? Would you abolish it altogether, or merely modify it?—A. I should merely modify it.

The CHAIRMAN: That is what I thought.

By Mr. Spencer:

Q. Major Douglas informed the committee a short time ago I believe that the world had warning of the deflation that was going to take place. I would like to ask if he could give us where that warning came from, and about what time it took place?—A. I am informed—the first part of the answer will have to be made with reserve—but I am informed that the genesis of the policy was in New York. The first public announcement in regard to the matter in Great Britain was the speech by the Chancellor of the Exchequer who I think then was Mr. McKenna. I see some one at the back of the hall knows who it was. It was in 1920,—I have forgotten the exact fact as to who was Chancellor of the Exchequer—but it does not affect the statement. He said it was impossible for him to make any progress in regard to the restriction of new government credits, if as fast as he made steps in this direction the banks issued large commercial credits, and that was I think almost universally regarded as a warning to those who had ears to hear that the restriction of commercial credit would then commence.

By the Chairman:

Q. I think I could put my hands on some books in the library written two or three years before the Armistice wherein the public were warned about deflation?—A. Yes, but not authoritatively.

Q. Just as authoritatively as the Chancellor of the Exchequer or any banker in England, or any excellent student—it was bound to come, was it not?—A. I am merely recounting facts; that I think is the only answer I can give to that question.

By Mr. Euler:

Q. I have not been present on all occasions during this examination, but I gather that the witness states that our great difficulty comes from the lack of power to purchase. I also gather that there is a relationship so far as credit is concerned between the power of production we have in the country and the desire to purchase, is that correct?—A. That is rather like saying that there ought to be a relation between a gas balloon and a half a Crown; there ought to be a relation between the actual drafts that are made on production and the capacity of production, yes.

Q. If that were true in a practical way would your suggestion be that there should be unlimited credit according to the desire of those who wish to purchase, and where would you draw the line? Would you, for example, advocate that the banks or institutions of that kind should extend credit to the full desire of the people to purchase?—A. I think you prefaced what you said by saying that you had not been here all the time. The contention of course is the banks are only using public credit, and that it is public credit they are using; and the further contention is that there is only one common sense object in having an industrial productive system at all, and that is that it should deliver goods to the people in the country, that the object of having people and an industrial system is not to have the people serve the industrial system, but to have the industrial system serve the people. If that contention is admitted, then what you have to do is to find some method by which the people, individuals, can

draw on the industrial system up to either the limit of the capacity of the industrial system to supply, or the limit of their personal demands, whichever comes first; that is what the thing exists for.

Q. Supposing you had the industrial system, the producing system quite up to the demand, we will say, at the present time; if you extend that credit in accordance with the desires of those who wish to purchase, do you not think that those desires would extend again and again, and then have an action upon the productive system in its turn?—A. Yes.

Q. Where would it end?—A. It amounts to this, it is my firm and clear conviction that the industrial system can always at the present time meet far more demands than can be made on it, and that this tremendous expansion that you would suggest would be very temporary, it would only result from the extraordinary state of mind into which people have got, that we only hang on to this panic by the strength of our eyelids, that it is really only with the greatest difficulty we can live, whereas as a matter of fact it ought to be quite easy to live. If one could get that idea out of people's minds, it would not take very long—I would not say it is going to be done in six months or six years—but it could be done; then you would not have that effect.

Q. My idea being that human nature being what it is, if you grant unlimited credit their desires would expand out of all proportion to what would be well and good—

The CHAIRMAN: Gentlemen, I think we must conclude the questioning of Major Douglas now, and I hope when I make that decision I am not cutting anybody out or doing any injustice to any person.

Mr. SHAW: I suppose he will be available if we want to ask him any questions?

The CHAIRMAN: I don't know, you will have to inquire of him. Mr. Douglas cannot remain here at the pleasure of the Committee for any length of time.

Mr. IRVINE: I would like to have Major Douglas available for a few questions.

The CHAIRMAN: If you can arrange it and it is satisfactory to him. Could you remain here?

The WITNESS: Having come so far I want to help as far as I can.

The CHAIRMAN: Let us understand this, Mr. Irvine; you may want to recall him.

Mr. IRVINE: Yes.

The CHAIRMAN: It must be understood, however, that it will be just for a few questions.

Mr. IRVINE: Yes.

The CHAIRMAN: We cannot call a person to express his views upon a subject, and then have him come back and contradict in rebuttal somebody who has followed him, because otherwise we would never get through.

Mr. SHAW: But still we have lots of time. We only get an opportunity once in ten years at this Bank Act, and I feel the fullest opportunity should be given.

The CHAIRMAN: We have been here two days.

Mr. SHAW: Yes, I know, but I think the Bank Act is of such vital importance, if you are going to put a time limit on it—

The CHAIRMAN: We are discussing not the Bank Act, but Mr. Irvine's resolution.

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Mr. IRVINE: That is more important.

Mr. SHAW: Many people think it is more important.

Mr. SPENCER: It seems we cannot give too much time to both sides of this all important question.

The CHAIRMAN: I can conceive that there must be a limit to it. There is no use sitting going over the ground all the time, the same thing. There has been very considerable repetition.

Mr. IRVINE: I assure you I would not expect Major Douglas to repeat the whole thing over again. If I recall him again it will be to ask certain questions arising out of his own position.

The CHAIRMAN: I think it is only fair to say that Major Douglas is the advocate and almost the creator of an economic system which he has supported with vigour and persistency here. I suppose if he had not great faith in the system which he advocates he would not have taken the trouble to cross the ocean and appear before the committee. Whether we agree with him or not it matters little to him, I suppose, but I think I am speaking for the Committee when I say we are very glad to have had him appear before this Committee and we thank him for his appearance before the Committee. The views which he has expressed will induce perhaps a study of finance and banking and economics generally on the part of not only the members of the Committee, but the citizens of the country.

Major DOUGLAS: Might I be allowed to say that I appreciate very much—and I assure you I am speaking quite frankly—I appreciate very much the extreme fairness and the latitude and the consideration that I have been given in putting forward what I know must sound rather at first sight extraordinary ideas.

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[The Committee went on to hear testimony from Sir Edmund Walker, President of the Bank of Commerce—Editor]

the customer when that is done, to show such a surplus of quick assets over his quick debts that he can pay his account off once a year; that is the ideal account. When things are at their best a tremendous proportion of the customers of the Bank of Commerce who borrow large sums of money for operating various businesses pay their loans off once a year, but when we come to a time like the present you will find the number who do that is very much less than it was two years ago. But that is the ideal. In Major Douglas's book he practically spoke as if the whole money necessary to operate a plant after the plant was built, was provided by the bank. I know of no such banking; we only lend the money to carry the so-called peak. We do not lend it to build factories, and we do not lend it to any class of men whom we know speculate.

Q. The best loans, I presume, and the loans the bank wish to make, are loans against things that actually exist and for which there is a demand?—A. Yes.

Q. And will finance themselves?—A. Quite so.

Q. But banks make loans on other forms of security. That being the method or the security on which banks wish to make loans, things that are in existence and for which there is a demand, which will be sold soon and of themselves pay the loan; that being the business that they wish to do, and the far greater part of their business, do we not come back to what I suggested in my third question, that the banks are not so suitable to meet the agricultural needs of the country as they are to meet the commercial and industrial needs of the country?—A. We have explained a good many times to this committee that we exercise a very much wider discretion towards farmers than we do towards producers or manufacturers, and lend on longer accounts.

Q. Or commercial men?—A. Yes, or commercial men.

By the Chairman:

Q. Did you hear Major Douglas's statement here?—A. Part of it; I read his two books.

Q. I think the members of the Committee would be glad to hear you and to see what you have to say about his suggestions.

By Mr. Woodsworth.

Q. Before going into that, might I ask a question relating to a previous question; first with regard to Mr. Hanson's question and the possible return to a gold basis, would that involve further deflation?—A. Not necessarily; I don't think it is necessarily connected one way or the other with deflation, except that the Dominion Government has issued legal tender notes, and should retire those to a certain extent before we return to a gold basis.

Q. You do not think it would involve any—?—A. Deflation on the general public credit?

Q. Yes?—A. No, I don't think it necessarily—indeed I am sure the United States returned at a time when there was anything but deflation.

Q. And the other question I wished to ask was, as I understood Sir Edmund, he suggested that the banks have plenty of capital at the present time if there were adequate securities available?—A. Yes.

Q. It has often been said that we need to import more capital from the Old Country. If the banks have sufficient capital for loaning or sufficient money for loaning, would the solution for our economic problems lie in the importation of more capital to Canada?—A. The capital that is often spoken of as being desirable to import from other countries, or secure from other countries is for fixed capital, in order to build public or private improvements; not for the purpose of carrying on the business of lending against movable products. I have

[Sir Edmund Walker.]

never heard at any time that Canada needed to import capital for the purpose of lending more money for the creation and movement of products, but more money constantly is required to build railways, plants and so on.

By the Chairman:

Q. Now my question, Sir Edmund, if you please?—A. Well, gentlemen, I have read Major Douglas's book. I frankly admit that I would not have read it but for my attendance before this Committee. I think in reading it I gave myself the most difficult job I have essayed since I tried to study Greek. I heard what Major Douglas said, ostensibly in answer to the questions put to him, but in my opinion he did not answer any single question put to him, nor did he say anything that had any relation to an answer to the questions put to him. He gave what I heard a gentleman call "a diarrhoea of words" each time a question was asked him. Now Major Douglas begins by giving to quite ordinary, common things, peculiar names of his own invention; and unless he sticks to those peculiar names and builds his theory on those peculiar names, his theory falls to pieces. I observed, with a good deal of comfort, that he is opposed to Bolshevism, and he is opposed to syndicalism, and he is opposed to Marxism, and he is opposed to Socialism; he has not much opinion of labour unions, and not very much I think of banks. The conclusion that I have to come to is that he has not any opinion of anything except Major Douglas' own peculiar theory.

Mr. SPENCER: Excuse me. Mr. Chairman, may I interject there?

The CHAIRMAN: No, wait. Permit Sir Edmund to finish.

Sir EDMUND WALKER: His theory is best illustrated I think by an instance in his book, which shows how he would propose to deal with almost the greatest industrial problem perhaps that exists now in the world. That is the difficulty between the coal mine owners and the coal miners of Great Britain. If I remember correctly he proposes to create a thing which he calls a "producers' bank." It is not a bank at all. It has not any capital. It does not declare any dividends. It only performs some of the functions of a bank. It is what I would call a financial office or a sort of bursary. Then he starts out by valuing all the coal mines in England, and having got them valued somehow, he then says six per cent is to be paid for ever to the owners of the mines upon that capital value. The mine owners, poor fellows, are to start the thing by putting a lump sum into the producers' bank, of two weeks' wages of the miners for the moment. The miners are to be paid in that way. If any improvements are made to the properties from that time forward, the money for the improvements shall be found by the producers' bank. He does not say how. It has not any money, and I do not know that it has any credit, but the money is to be found in some way by the producers' bank.

The entire output of coal mined is to be sold to the public. Although it is the same kind of coal, it is to be divided into three different kinds. Under Major Douglas' nomenclature there is what is called domestic coal, and what is called industrial coal, and there is coal to be exported. Apparently you can charge for the coal to be exported any sum that you can obtain. I do not see that he has any peculiar way of handling that. But on the industrial coal you are to get apparently what it costs to mine. And the domestic coal you are to sell, upon the theory that if the people cannot afford to buy coal at the cost of mining it, then the price is to be fixed at a sum that they can afford to pay; and that amount or price is to be found, if I remember correctly, by multiplying the actual cost of mining the coal by the cost of manufacturing all the other commodities consumed in England and dividing that by the value of all the articles produced. Perhaps I should have it the other way on; but it does not matter,

[Sir Edmund Walker.]

it is either one or the other. The result at all events is that the domestic coal is sold for considerably less than what it cost to raise it. Not a difference as great, I should hope, as in the case of a motor car he spoke of, not I should hope 25 per cent, but a good deal less than cost at all events; and in order that the poor producers' bank may get enough money to pay for the coal, the domestic consumer of the coal gets a ticket on what is called "the national credit account," that is a euphonious name for the treasury, and "ticket" is a euphonious name for a draft on the treasury, a legal tender bill. He gets that and thus by making up the difference between what the coal cost and what the consumer of the coal can afford to pay or would pay under this peculiar way of arranging the transaction, he can do quite a fine business in coal. As far as I can make out, everything else is to be worked on that theory. You cannot manufacture too much. He tells you that over and over again. You cannot make too many goods in the world; what you want is purchasing power and you can make the purchasing power if you make the price low enough, and you can make the price low enough by just getting a ticket on the national treasury for the difference. The sum of those tickets would become a part of the National Debt and it would grow, and grow, until it reaches the condition that has been reached in Germany. He regards it as a misfortune that Austria should have attempted to straighten out its affairs and get into what we would call an honest and solvent condition. She should have remained as she was, and Germany is in a quite ideal condition, and his system, I am perfectly sure, would produce the German system in England, or in Canada, or wherever it is tried.

Q. Then, Sir Edmund, did you follow Mr. Bevington's suggestion? You did not hear it, but you may have read it. Did you understand it?—A. If I understand Mr. Bevington's suggestion, in the end it would result in the Dominion Government supplying a constant stream of legal tender notes which would not be redeemed, and therefore would create in the end a situation, not quite as bad as Major Douglas' scheme would, in financing someone to buy something whether they want it or not.

[Sir Edmund Walker.]

[The Committee then received evidence from Professor Adam Shortt before recalling Major Douglas.—Editor] sonally, through the various phases, and show where the thing breaks down; when you arrive at the end, you do not have any end.

Q. Would it not be better for you to say that the proposition of Mr. Bevington's is so vague that you cannot offer any objection to it, and having offered an objection to it, I would presume there was something so vague that you could not understand it?—A. Yes, you can put it any way you like. I have stated my willingness to discuss it.

Q. I would be willing to do that with you, Professor, some other time. Are you aware that Mr. Bevington's scheme is not a new scheme at all, that it contemplates using exactly the same scheme as we have now, in every way, except decentralization?—A. I think we are only wasting time.

Q. The point is that if Mr. Bevington's scheme is not contemplating redemption, then neither is the present scheme contemplating redemption, because as I understood Mr. Bevington's scheme, it is exactly the same as we have now?—A. I interpret it to mean that, inasmuch as for the time being we are not on a gold basis, but on a basis of fiat money, Mr. Bevington, as I understand it, simply wishes to continue that system, and that it is quite sufficient to go on without the gold basis.

Q. Mr. Bevington established his whole principle on the gold basis, if you notice this chart.—A. The way in which he treated it was to imply a force on that which does not exist; but as I say, I do not think it is worth our while discussing this thing and taking up the time of the Committee, when we have not analyzed the definitions, and the stages by which he arrives at them.

The CHAIRMAN: I was thinking of inviting Mr. Irvine and Dr. Shortt back here Sunday afternoon.

By Mr. Irvine:

Q. The point is, that the Professor made a criticism of the system and now he wishes not to make it. That is satisfactory to me.

By Mr. Hughes:

Q. Would you say that Mr. Bevington's scheme is comparatively sound, as compared with Major Douglas'?—A. Oh, yes.

By the Chairman:

Q. What do you think of Major Douglas' scheme? Let us have that while you are here.

Mr. IRVINE: If he makes a statement now and I have not got time to question him about it, I would request that he would come back tomorrow morning.

The WITNESS: Of course, I think the scheme is absurd, but there again I wish to do justice to Major Douglas, to take his definitions and trace the building up of these, and show where it goes wrong. I am familiar with that kind of condition which we had, very much the same as Mr. Bevington's scheme, in 1879 and 1880, when we had what is known as the rag-baby scheme, which you can get in the *Hansard* of that time if you care to look at it.

By the Chairman:

Q. What was that?—A. It was to use the Dominion credit in financing production and consumption and that sort of thing, in much the same way as, for instance, the Dominion issue was employed to hand out ten million dollars issue to the Grand Trunk and fifteen to the Canadian Northern and so on. Mr. Wallace was the leader of it. At that time it was a very conservative party —nearly all the members were conservatives, who came in with Sir John Mac-

[Prof. Adam Shortt]

donald in 1878—and finding that conditions had not improved very much, he wished to go further. You. will get all the scheme, which was to use the Dominion credit in financing the industries of the country.

Q. The theory is to make money by legislation, and you say that cannot be done? Do you agree to that?—A. Not exactly, because I do say it is possible to utilize the Dominion credit or the Provincial credit or the Municipal credit for various purposes. I say the proof of the pudding is the eating of it. We have had any amount of proof of it in Canada all over.

By Mr. Mitchell:

Q. There were a great many advances made in 1879 and 1880?—A. Not in 1879 and 1880. That was earlier.

Q. What was the result ?—A. The result was that practically all of the loans made are part of the national debt to-day, that those who did not get the loans demanded they should be supplemented by having the amounts put to their credit, to equalize those who got the most, and finally those who never got anything demanded they should get the equivalent.

By Mr. Woodsworth:

Q. Dr. Shortt has given us a general review of the development of bank clearings, the bank note issue, long term credit. The bankers have told us that it is not good banking. They have told us that it is not good banking to issue very short term credits. They find themselves under the necessity of charging 10 per cent for a few weeks or a few months credit and they think it is much to their advantage to issue long term credit. My point is that they have the monopoly of the deposits of the people under certain circumstances. Why should not they give accommodation to the people even though it extends for a long time?—A. It follows from what you said about the extension of credit and all that that only a moderate proportion is redeemed or comes back for redemption, deposit, and so on. Therefore there is a small portion which the bank can issue on long period loans, but it is very small, and here is the great danger. It is not necessarily that they shall have to meet them all but when they have loaned out a considerable part of their credit on these long term loans they cannot call them in again. The consequence is that the amount to be called in is on the shorter loans. Those are usually issued to merchants for manufacturing purposes and so on. If you concentrate on demands for returns from those people you are going to paralyze or cripple their industry, and consequently the net result is that the long term loans are bad for the bank and bad for the people.

Q. But if they had not such a large amount in their own bank premises, for example, which are not readily convertible to liquid assets, I presume they might issue larger amounts to farmers, for example?—A. That assumes they are issuing on their bank capital. I think I can show you from statistics that their bank capital is almost inviolable, because, roughly speaking, the bank capital barely takes care of the permanent securities, the buildings that they have, and the real banking of the country is carried on on the deposits coming out of the savings and the loans. That is perfectly safe banking, because when a bank issues a loan on the security of wheat going forward or anything of that sort and takes a sufficient margin on that, it is facilitating the business of the country, that is, of exchange, on a solid basis, and so the banks' accommodation will expand and contract in proportion to that business. That is the main function of the bank. It is distributed in various ways under section 88, but that is the essence of it.

[Prof. Adam Shortt.]

By Mr. Shaw:

Q. Dr. Shortt, I take it you agree with Professor Fisher that we should eliminate the periods of inflation and deflation if we can do it?—A. If we can do it.

Q. You say that Professor Fisher's scheme is not satisfactory for that purpose, in the stabilizing of the dollar. Have you any scheme which you can suggest to this Committee as a means to this desirable end?—A. My scheme is simply to take the present arrangement and make it more perfect.

Q. Make it more which?—A. More perfect. The present system is all right as a system but as has often been said, it is defective sometimes in its working. You cannot prevent apparently nearly all the people from being carried away by a boom. You know the west and you know what happened there and you know how the banks were carried away as well as other people. So if it had been a question of a perfectly wise banking system alone, run by experts, there would not have been nearly so much boom out there because the banks would not have advanced the credit in the reckless way in which they did.

Q. Do you suggest that the banks have anything to do with inflation?—A. Not by taking the initiative but by being too easy.

Q. Following in the wake of some of the inflators?—A. Following in the wake of some of the inflators. It is very true the banks do not go out and press their money on anybody, but they are there for the application, and therefore extension and contraction depend on the applications which come to them for security and so on. A perfectly wise banking system would be one in which the chief managers were sufficiently foresighted and farsighted and thoroughly acquainted with their business so that they could curtail it, that is to put a damper on it.

Q. That is exactly what Professor Fisher was coming at, in the general Treasury.—A. That is what has been asked here time and again, what the Federal Reserve Board would not do, and so on.

Q. You take it that in order to prevent the expansion and accompanying deflation we should have control of the people who control the system. The fault lies with the Government?—A. Yes.

Q. There is no suggestion you can make that would improve the system?—A. No. There is only one feature I would add to that, and that is, I think the feature we are speaking of can be greatly improved by extending the powers of the Bankers' Association. If you notice, in successive acts the powers of the Bankers' Association to step in and do this, that, and the other is increasing. That would enable the disciplinary process to operate here and would be far better than any superimposed scheme of a Federal Reserve Board or anything of that sort.

The CHAIRMAN: Everybody is silent so long that I assume there are no further questions to ask.

Mr. IRVINE: I asked the right to retain Major Douglas with a view to recalling him for a minute or two if necessary. I presume we want to get rid of him as quickly as possible and I would like to recall him in the morning for a few minutes.

The CHAIRMAN: I must have the support of the Committee in that.

Mr. IRVINE: I will not take him over any new ground and I will not ask him to repeat anything, but simply to substantiate some points.

Mr. MITCHELL: What is the object of recalling him?

Mr. IRVINE: What is the object of recalling any witness?

[Prof. Adam Shortt.]

Mr. MITCHELL: I do not think that is a fair statement from Mr. Irvine. We have heard Mr. Douglas. We have examined and re-examined him and if we are going to keep on calling witnesses day after day here we will never get through with this Committee.

The CHAIRMAN; That is a fair question, I think, Mr. Irvine. Say what you want.

Mr. IRVINE: Major Douglas has been trying to put up a certain case for instance. That case has been dealt with very largely and criticized, by others who followed him, sometimes criticized unfairly and misrepresented. I want to re-establish the point where misrepresentation has come in, to show where it has not been properly made.

The CHAIRMAN: His scheme is before us pretty clearly. It is for us to decide whether it is sound.

Mr. IRVINE: You can decide whether you will permit me to have him or not.

The CHAIRMAN: I am not limiting you in as far as it is fair and possible to do so. I want the Committee to agree upon this. It is quite clear that we cannot have witnesses making statements and then have them come back again to explain away some criticism that has been made about them. We would never finish. That is not the way in which public inquiries are carried on. If you say you wish to ask a few questions and would take five minutes, or just limit the time, I think the Committee would try to accommodate you largely by reason of the fact that Major Douglas has come a long way.

Mr. IRVINE: I would not like to limit it to five minutes. It might take fifty minutes.

The CHAIRMAN: You cannot get fifty minutes very well.

Mr. SPENCER: According to the Minutes, it was understood when he left the other night that he could be called back for a short time.

Mr. MITCHELL: It was clearly understood that it would not be fair to rebut other witnesses and it would not be for the purposes of bringing anything new in. I do not know yet what the intention is, because as I said a moment ago, Mr. Chairman, if we are going to allow one man to be called back and rebut what another witness says, we will go on indefinitely, and we will have to call Professor Fisher back and Professor Shortt, to rebut what Major Douglas says now.

Mr. SHAW: Surely this Committee has not developed into a court of law. What I am trying to get is information and I do not care from what source it comes.

Mr. MITCHELL: I agree with Mr. Shaw, so far as that is concerned. But we have had Major Douglas; we listened to him for two days. His case was made out completely. I think everybody who heard it has come to a conclusion one way or another on it, and unless there is something definite that Mr. Irvine wants to prove by this witness, I do not believe it is proper procedure to recall him.

The CHAIRMAN: Major Douglas was asked to make a statement here. He came here and made it, and it is not proper to ask a man to come back and make another statement. Can you not promise to dispose of the thing in ten minutes?

Mr. IRVINE: I understood when Major Douglas finished his statement that I would be allowed to recall him, and for that reason he is here. But I am not going to press that at all.

The CHAIRMAN: I believe I made that statement, but there was a condition attached to it.

Mr. IRVINE: I am not going to ask anything from my witnesses other than have been permitted to other witnesses. I thought it had been done in investigation of this kind in numerous cases.

The CHAIRMAN: Will you tell me generally what you want to recall him for? He made an exhaustive statement, and I assume he cannot add anything to his statement. I can understand your wish to have him back here to make a few statements, explanatory of something that he had made before, and perhaps which were misunderstood by somebody. If you could confine it to that examination, we probably could arrange it.

Mr. GOOD: May I make a suggestion, which I think perhaps will offer a way out. Major Douglas has come a long way. He has presented to us a very startling proposition. It is not unlikely that a good many of us have misunderstood certain aspects of that proposition, and I would suggest he be allowed a certain definite time to clear up any of the points which he thinks have been misunderstood, if that is the case. Do not ask any questions. Just invite him to clear up anything that might be indefinite. He has the record. He can see what has been said about his case and we can give him ten or fifteen minutes to clear up any point on which he thinks he has been misunderstood.

The CHAIRMAN: You have expressed my views on that concisely.

Mr. IRVINE: That will satisfy me, Mr. Chairman.

The CHAIRMAN: I will be the judge of the time.

The Committee adjourned until 11 o'clock a.m., Thursday, May 3, 1923.

THURSDAY, May 3, 1923.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Any notices of motion?

Mr. IRVINE: I have one. (Motion read and filed).

The CHAIRMAN: We will now hear from Mr. Douglas.

Mr. COOTE: Before Mr. Douglas gives evidence is it possible to say about how often the Committee is to meet while the House is in session? There are a great many complaints by members.

The CHAIRMAN: Bring it up at five minutes to one.

Mr. COOTE: You would rather leave it till the last? So many of our members run out at five minutes to one.

The CHAIRMAN: Bring it up then or this afternoon.

Major HUGH DOUGLAS, recalled.

The CHAIRMAN: I understand, Major Douglas, that there are some general statements you wish to make within a limitation of time; proceed.

The WITNESS: Mr. Chairman and gentlemen, you must have noticed I think in going over the evidence, which I have read myself since I came to Ottawa, both of myself and other people, that there is a wide divergence of viewpoint involved. I just want to emphasize what I might say is our viewpoint, and I have no doubt you will be able to extract the other viewpoint for yourselves from the evidence. We say it would be regrettable and an undesirable thing if an individual having sufficient money could not get delivery of goods; but we have no record of any such situation existing for any length of time. But we

[Major Douglas.]

consider it to be an insane and unintelligible thing that if the goods exist and people are willing to make more, that the majority of people have not got the money to buy them. I am putting that point of view forward as my own point of view, as the point of view of those people who may happen to agree with me. You have in this evidence from all sides heard a good deal about inflation and deflation, and something I think in one case, and very interesting indeed, was about variable yard sticks, and so forth. All of this is very important, but it is not exactly what perhaps we wish to impress on you as being of the first immediate importance, by which I mean that if you wish to tackle this problem with a view to getting it straightened out, it is not exactly from that particular angle that you have got, as we see it, to tackle it. We say under the present financial system, wages, salaries and dividends distributed over say a period of one year are not available in the hands of the buying public to buy the production of that year; they have in a considerable measure returned to the credit system from which they emerged during that year, and they are not available to buy the production of that year. I would like those who are specifically interested in that problem to consider that statement very carefully in exactly the words in which it is made in the written report, of the evidence, because at any rate we consider it to be of great importance, if not of fundamental importance. There is available a rigid but also rather an abstruse mathematical demonstration of this statement, but I want to read to you an inductive proof of it derived from figures on this continent which has been sent to me by one of the groups who are associated with me in the United States, because the figures will be very much more germane of particular problems. This report says:—

> "The retail trades will soon again face the 'consumers' strike.' At the height of a recurrent cycle their costs are rising. They are the payers on the accumulated costs of production, and when the consumer will not or cannot buy, they will be the prime sufferers.
>
> "Now the buying power of the population per head has shrunk, and as prices outdistance wages on the upward spiral of the present 'boom' it will shrink again; and this at a time of increased facilities and increased actual production. A glance at the record since 1900, during alternate booms and deflations, tells the tale."

I would like you to notice that that covers a period which takes in a number of alternate booms and deflation, so that the question of inflation and deflation is cancelled out to some extent.

> "The Harvard economic researchers report 83 per cent increase in annual physical production of goods from 1900 to 1917, while the population increased only 34 per cent; that is, an increase of more than one-third of goods per capita up to 1917, while the annual increase to 1920 during the twenty-year period was at least 30 per cent. To absorb this increased volume of goods the buying power of the masses should have increased commensurately.
>
> "But instead of increasing, their buying power shrank appreciably during this period. Basil M. Manly, formerly Director of Research and Investigation, U.S. Commission of Industrial Relations, estimates the purchasing power of wages in the manufacturing industries during 1919 (in terms of the dollar's purchasing power in 1889) at $420 per employee as compared with $426 in 1899. That is, while the actual average earnings per employee in 1919 had risen to $1,159, they would not buy as much of the necessaries of life, as compared from census reports—of food, rent, fuel, clothing and transportation—as $426 would buy in 1899. The wage needed to support a family of average size on a minimum com-

[Major Douglas.]

> fort level was fixed by the Philadelphia Bureau of Municipal Research at $1,992; only $160 more than the amount fixed by the National Industrial Conference Board, a manufacturers' organization, as the minimum necessary for a wage-earner's family in Lawrence, Mass. It is $600 below the health-and-comfort budget of the United States Bureau of Labour Statistics. With average earnings of but $1,159 in 1919, the consumers of the country were even then unable to meet their real needs or to absorb the country's actual increases in production.
>
> "This was at the end of the war, when nominal wages were at their peak. During the past ten years factory workers have been underpaid, taking the wage of 1899 as a basis in computing purchasing power of the dollar, by amounts ranging as high as $440 millions a year, and the aggregate underpayment of employees for the twenty years amounts to more than 3.5 billions, while production was actually increasing by one-third. Yet the actual production was small compared with the capacity production during that period.
>
> "The relative buying power of union wages, based on relative rate of wages per week, full time, and upon the changed buying power of the dollar, shrank from 100 in 1907 to 94 in 1921. Mr. Manly remarks: 'The apparent rise in 1921, caused by the sharp decline in the cost of living, is all an illusion. With the decline in prices came unemployment, and

the man out of a job has little interest in the purchasing power of wages which he has no opportunity to earn.' That is, the families of the millions of men out of jobs or on strike were lucky to share the diminished real wages of those still at work….

"Mr. Manly cites confirmation of his conclusions from leading statistical authorities, including the United States Census Bureau and the Bureau of Labour Statistics, the Pennsylvania Old Age Pension Commission, a study of 'The Movement of Real Wages, 1890-1918,' by Dr. Paul H. Douglas and Frances Leamberson, bringing down to that date the elaborate statistics compiled by Dr. I. M. Rubinow in December, 1914; the report of the Interchurch Movement on the Steel Strike of 1919; the estimates of the Philadelphia Bureau of Municipal Research, the National Industrial Conference Board, and the Harvard Bureau of Economic Research. None of these reckonings take account of the millions of workers on part time or completely unemployed.

"The intent of this memorandum is in no way to plead the inequity of this situation to the mass of consumers, organized and unorganized. It merely presents the view of the retail merchant with an eye single to consumer purchasing power. In a period of rising prices he must again reckon with a public unable to buy the volume of goods produced for sale, and that has never in our history been able to sustain any period of capacity production.

"While actual production has increased by one-third annually as compared with 1900, the average customer can buy less goods than he then consumed. Moreover, the export trade of the country has been cut in two. The great strikes of 1922, during which 1,200,000 men were idle, and a revolutionary tariff further endangering the export trade have made the situation yet more ominous. The business page of the ***New York Times*** recently commented: 'The only one certainty about them (the strikes and the tariff) is that they will result in the raising of prices of practically every commodity.'

"Now, if the domestic market declines to take the production of the past year, let loose by lowered money rates which have inflated

[Major Douglas.]

costs, the foreign market is less able to take it. Our foreign trade declined during 1921 by about 2 billions, and for the past year the surpluses of our nation have been vainly competing with the surpluses of Great Britain, France and Germany in an international market not half able to absorb them. If destroyed by non-use, and by the tremendous agencies of sabotage, wielded by every force of capital and labour, then the cost of these surpluses will infallibly be saddled upon the retail price of such goods as the American population must have for its support. If not used, the factories that produce them must be shut down or put on part time, reducing wages and throwing more consumers out of employment.

"Relief can come in one of two ways: by war, which is only organized sabotage of surplus and potential production, but which does bestow added purchasing power upon workmen consumers by mortgaging the future; or, *by capitalizing the surplus production in terms of the real needs of the people, and in terms of added buying power to raise the standard of living."*

That, gentlemen, I put forward to point out to you from actual facts and not from theories, that the buying power in the hands of the consumer is not sufficient to buy the product, and that, as we say, is the cause of the whole situation, and that is the situation you have to meet.

The only other thing I have to add to that statement is that I noticed in reading through the report of my evidence that I did not answer one of Sir Henry Drayton's questions at the end of one of the examinations, and I think the answer to that question is perhaps a little illuminating in regard to other points that were raised. Sir Henry Drayton said: "I was wondering if the Major could not give us a concrete illustration, I think he should before he goes, as to how exactly his ratio between production and consumption works out, particularly having regard to the fact that he complicates the question of production by imported articles?"

I think if you will take that instance that I gave you of the motor car which you had a discount of $500 on, you will see what is meant. The discount of $500 on a motor car on which the costs were $2,000, is based on the assumption that the estimate of actual concrete and possible potential production over a given period, bears the ratio to actual consumption of 20 to 15. That is to say, that you could have or did, just as you like to put it, for your own purposes, produce over a given period $2,000 worth of stuff and through the processes of consumption and depreciation and all sorts of things of that sort you used up only $1,500. Now, the question is what did that $500 represent? It represents chiefly capital production during that period, and the discount which you have given off the price of a motor car enables the community to get it to invest, to exchange their dollars retained in this way for bonds which represent a holding in the capital of the country, and that is the way in which you get a general community control on the real capital of the country, which is the plant and so forth; and that is the way in which by the interest on that capital you can provide a purchasing power for the people who as the progress of science marches on will inevitably be displaced from the ordinary economic processes of production. The whole trend of progress is to displace labour, and you have got to find some method by which these people are provided with purchasing power without going through the process of production; and that is the suggestion which is made in that relation. That is all I have to say.

[Major Douglas.]