The New Age

The Mechanism of Consumer Control.
By Major C. H. Douglas.
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December 16, 1920

I.

No doubt, to some members and guests of this Society, much of the subject with which we are concerned tonight will be elementary, even if the method of approach to it is somewhat novel; but to others to whom the subject of Finance, which is an important component of it, is a mysterious and incomprehensible jungle through which they feel they could never hope to find a way, I would make the following suggestions.

Money is only a mechanism by means of which we deal with things--it has no properties except those we choose to give to it. A phrase such as “There is no money in the country with which to do such and so” means simply nothing, unless we are also saying “The goods and services required to do this thing do not exist and cannot be produced, therefore it is useless to create the money equivalent of them.” For instance, it is simply childish to say that a country has no money for social betterment, or for any other purpose, when it has the skill, the men and the material and plant to create that betterment. The banks or the Treasury can create the money in five minutes, and are doing it every day, and have been doing it for centuries.

Secondly, you will hear a good deal to-night about credit, and I would ask you to bear most consistently in mind the two following definitions:

Real credit is a correct estimate of the rate, or dynamic capacity, at which a community can deliver goods and services as demanded.

Financial credit is ostensibly a device by which this capacity can be drawn upon it. It is, however, actually a measure of the rate at which an organisation or individual can deliver money. The money may or may not represent goods and services.

I would also ask you to realise that the validity of the criticisms passed on the existing financial system does not rest to any considerable extent on the personal character, or the good or bad motives, of financiers. The motives of both sides of the Irish question, for example, may be of the most lofty, for all that I know to the contrary, and no one would suggest that there are not charming men on both sides; but one can hardly say that the result of their policy is happy, and that either side can be allowed to pursue a policy having such results, indefinitely, and the same line of reasoning can be applied to the existing financial system.

Before dealing with the subject described by the title of this address, I would therefore beg your indulgence for a short space of time in order to review briefly certain premises fundamental to the subject; because it has been found that even people very familiar with these matters are apt to raise vigorous objections which are really based on other and inconsistent premises unless they are placed in the limelight at once, and as far as possible, simultaneously. If you disagree with these premises, you will of course disagree with our conclusions, but if you agree, and still dislike the conclusions, I hope you will tell us where the hiatus occurs and suggest another solution based on them.

Categorically, they are as follows:

(1) Modern Co-operative industry (all modern industry is co-operative) serves two purposes; it makes goods, and distributes purchasing power by means of which they are distributed.

(2) The primary object of the overwhelming majority of persons who co-operate in industry is to get goods with a minimum of discomfort, both of the right description, "right" being a matter of individual

taste, and in the right quantity. It is not "employment," and it is only "money" in so far as money is a means to these things.

If the system fails to achieve this end, it fails in its primary object and will break up, from the failure of the majority to co-operate.

(3) If we insist that the distribution of the goods is entirely (Marxist) or chiefly (Capitalistic) dependent on the doing of work in connection with the production of them, then it follows that either, (a) it takes all the available labour to provide the requisite amount of goods, or (b) an increasing number of persons cannot get the goods, or (c) goods or labour must be misapplied or wasted, purely for the purpose of distributing purchasing power.

We know that (a) is not true. If it were, the whole of modern progress would be a mere mockery. But, on the contrary, it is quite indisputable that, apart from many other factors making for real progress, production is practically proportionate to the dynamic energy applied to it, and the means developed during the past century by which solar dynamic energy (steam, water, oil-power, etc.) has been made available to the extent of thousands of times that due to human muscular energy (which yet, previous to this development, was able to secure for humanity a standard of life in many ways more tolerable than that existing to-day) is sufficient basis for such an assertion. Speaking as a technical man, I have no hesitation in saying that it is the programme of production and not the productive process which is chiefly at fault, and that where the productive process is working badly, it is because of the inclusion of unnecessary labour in it.
(b) and (c) are true, as matters of both common and expert observation.

(4) The system under which the whole of the world, not excluding Russia, carries on the production and distribution of goods and services, is commonly called the Capitalistic system, which system, contrary to

general opinion, has nothing, directly, to do with the relations of employers and employed, which are administrative relations. The fundamental premises of the Capitalistic System are first, that all costs (purchasing power distributed to individuals during the productive process) should be added together, and recovered from the public, the consumer, in prices; and second, that over and above that the price of an article is what it will fetch.

If you will give the foregoing premises your careful consideration, you will see that the existing economic system is breaking up, not so much from the attacks on it, which, on the whole, are neither very intelligent, nor very well, directed, but because of the inherent incompatibility of its premises with the objective of industry and modern scientific progress as a whole.

The latter, taking the objective of industry as it finds it, endeavours, and fundamentally succeeds, in obtaining that objective with an ever decreasing amount of human energy, by shifting the burden of civilisation from the backs of men on to the backs of machines; a process which, if unimpeded, must clearly result in freeing the human spirit for conquests at the moment beyond our wildest dreams.

The existing economic system, on the contrary, ably backed by the Marxian Socialist, takes as its motto that saying which I cannot help thinking proceeded rather from Saul of Tarsus than from the Apostle of Freedom--“if a man will not work, neither shall he eat”--and defining work as something the price of which can be included in costs and recovered in price.

It completely denies all recognition to the social nature of the heritage of civilisation, and by its refusal of purchasing power, except on terms, arrogates to a few persons selected by the system and not by humanity, the right to disinherit the indubitable heirs, the individuals who compose society.

May I emphasise this fact before passing or to more concrete arguments--if wages and salaries, forming a portion of costs, and re-appearing in prices, are to form the major portion of the purchasing power of Society, then modern scientific progress is the deadly enemy of Society, since it aims at replacing the persons who now obtain their living in this way, by machines and processes.

(To be continued.)

December 23, 1920

II.

The prevalent assumption that human work is the foundation of purchasing power has more implications than it is possible to emphasise to-night; it is the root assumption of a world-philosophy which may yet bring civilisation to its death-grapple; but one result of it is that a man and a machine are, in the eyes of a cost-accountant, identical to the extent that both are an expense, a cost which must re-appear in price, the man, however, being at this disadvantage as compared with a machine, that he has to bear his own maintenance and depreciation charges. Costs are a dispensation of purchasing power; and whether you are disciples of the "Cost" theory of prices, or of the "Supply and Demand" theory, you must admit that Capitalistic prices cannot be less than cost, over any considerable period of time.

If, therefore, a portion of the "costs" of production are allocated to machines, and yet re-appear in ultimate prices, it is obvious that the costs (purchasing power) in individual hands are not sufficient to pay these prices.

I do not wish to pursue at great length this aspect of the subject to-night, because it has been elaborated in considerable detail in print and does not lend itself to platform discussion. But one consideration must be mentioned--the effect on the prices of ultimate products--those consumed by individuals--of the production of intermediate products--tools, factories, raw materials, etc. While, as has just been suggested, the flow of purchasing power to individuals through the media of wages, salaries, and, it may be added, dividends, is not sufficient to buy the total price-values created in the same time, it must be remembered that a great and increasing quantity of the total production of the world is not bought by individuals at all--it is bought and paid for by organisations, national or otherwise, and is of no use to individuals.

Now the costs of this production represent effective demand to individuals; and the second postulate of the present economic system is that average price =

$$\frac{\text{effective demand}}{\text{goods in demand.}}$$

Consequently, the more of these intermediate products we produce, under the present system, the higher rise the prices of goods for individual consumption; which is the reason why the cry for indiscriminate super-production is both inane and mischievous. You will see at once that if the above formula for price, under the so-called law of supply and demand, is correct, which I suppose is not disputed, then it is really immaterial whether more or less goods are made, and more or less money distributed--any quantity of goods ***less than sufficient*** will absorb all the money available. And because the Capitalistic incentive to production is money, production stops when there is no more money.

You will see that, firstly, the existing system does not distribute the control of intermediate production to individuals at all; and, secondly, gives them no say whatever as to the quantity, quality, or variety of ultimate products.

The distribution of purchasing power through the agency of the present volume of wages, salaries, and dividends thus fails to distribute the product; and, since when distribution stops production stops, the system would appear quite unworkable.

But we know, as a matter of observation, that, although the grinding and groaning of the machine is plainly audible evidence that it is working very badly, it is working, and there must be something to account for the fact that distribution of a sort does take place. There are two things: export credit and loan credit. Now I may say at once that I do not see how it is possible to conceive of an economic system capable of dealing with the modern productive system in which this credit factor in the total sum of purchasing power does not play a preponderating and increasing part. It is far better to arrive at conclusions of this sort inductively rather than deductively, and I will simply direct your attention to the present trade position in this country and in America. There is the plant; there is the raw material; there is labour; and there is real, though not effective, demand; but production is decreasing along a very steep curve.

Why? I do not suppose anyone here to-night is guileless enough to believe that it is all the fault of Labour. It would do the Labour extremists all the good in the world, and might modify their policy, if they could be brought to realise that Labour, while a necessary factor in production, is less and less a determining factor. The success of the various dilution measures carried through under the stress of war is quite convincing proof of that fact.

Nor is it Capital, in the ordinary sense of the word. A man who has sunk large sums of money in a manufacturing plant wants to manufacture, if he can, because otherwise his plant is a dead loss to him.

There is no doubt whatever, and I do not suppose that anyone at all familiar with the subject would dispute the statement for a moment, that the present trade depression is directly and consciously caused by the concerted action of the banks in restricting credit facilities, and that such credit facilities as are granted have very little relation to public need; that, whatever else might have happened had this policy not been pursued, there would have been no trade depression at this time, any more than there was during the war; and that the banks, through their control of credit facilities, hold the volume of production at all times in the hollow of their hands. You will, of course, understand that no personal accusation is involved in this statement; the banks act quite automatically according to the rules of the game, and if the public is so foolish as to sanction these rules I do not see why it should complain.

I should like, however, to emphasise this point: if the civilised world continues to permit this centralised, irresponsible, anti-public control of the life-blood of production to continue, and at the same time the possibly well-meaning but ill-informed and dogmatic Syndicalist makes good what is in essence exactly the same claim in the administrative field, then the world, in no considerable time, will be faced with a tyranny besides which the crude efforts of the Spanish Inquisition may well retire into insignificance.

Let me repeat--the only true, sane origin of production is the real need or desire of the individual consumer. If we are to continue to have co-operative production, then that productive system must be subject to one condition only--that it delivers the goods where they are demanded. If any men, or body of men, by reason of their fortuitous position in that system, attempt to dictate the terms on which they will deliver the goods (not, be it noted, the terms on which they will work), then that is a tyranny, and the world has never tolerated a tyranny for very long.

There is, I think, a widespread idea that if agitators would only stop agitating, and reformers stop trying to reform, the world would settle down. For myself, I am quite convinced that both agitation and reformism are merely symptoms of a grave and quite possibly fatal disease in our social and economic system, and that unless an adequate remedy is administered there will be an irreparable breakdown. I am emphasising this lest anyone should imagine that mere laissez-faire or, on the other hand, a vigorous suppression of symptoms is all that is necessary to cause things to "come right.''

The roots of this disease, then, are as follows:-

(1) Wages, salaries, and dividends will not purchase total production. This difficulty is cumulative.
(2) The only sources of the purchasing power necessary to make up the difference are loan and export credits.

(3) All industrial nations are competing for export credits. The end of that is war.

(4) The major distribution of purchasing power to individuals is through the media of wages and salaries. The preponderating factor in production is improving process and the utilisation of solar energy.

(5) This latter tends to displace wages and salaries and the consequent distribution of the product to individuals. The credit factor in purchasing power thus increases in importance and dominates production.

(6) This production is consequently of a character demanded by those in control of credit and is capital production.

(7) The fundamental derivation of credit is from the community of individuals, and because individuals are ceasing to benefit by its use it is breaking down.

(To be concluded.)

Dec. 30, 1920

III.

If you have followed me so far you will see that there are two main and increasing defects in the present system--it makes the wrong things and so is colossally wasteful, and it does not satisfactorily distribute what it does make. The key to both of these is the control of credit.

I should like to direct your attention to the meaning which can be attached to the word "control." We talk about the “public” control of this, that, or the other. Is there any person in this room who has ever met the public, or knows, in any clear-cut, tangible fashion, this alleged entity, the public, or really--if he or she is honest in the use of words--cares a broken rush about the public? Is it the public which wants better houses, better food, a wider life? I think not. When there is “unemployment” it is John Smith, Jane Smith, and the Little Smiths who experiment with rationing. When there is a war it is Private, Lieutenant or Colonel Smith who loses an arm or whose wife places a wreath on the Cenotaph. I have not noticed that the name of the Public appears in the casualty lists of any of the nations, engaged in the late war.

I do not suggest for a moment that there is not a real group-consciousness--I think that there is such a consciousness. But the ills from which we are suffering do not take effect on that plane of consciousness, they take effect on individuals; and if, as I have tried to indicate, the key to the solution of those ills is to be found in a modified control of credit, then that modification must be in favour of individuals. We can, I think, safely leave the group-consciousness to look after itself.

The problem, then, is to give to individuals such personal control of credit as will enable each of them, for himself or herself, to get from the machine of civilisation those things, now lacking, to the extent that the machine is capable of meeting the demand, and the answer is almost childishly simple--it is contained in the proposition that he ought to be able to buy those things with the money at his disposal, and that if he does not want to buy them, then he should not be made to pay for them.

If you will consider this matter in the light of everyday conditions in the world of business, you will find that the practical steps necessary to embody these principles in a practical mechanism resolve themselves into two groups--the control in the interest of the consumer of the credit issued to manufacturers, in order that those things shall be made which the ultimate consumer wants made--because the ultimate consumer should be the sole arbiter of the policy of production, though not concerned with the processes by which his policy is materialised; and, secondly, that the credit, or purchasing power, in the hands of the consumer shall be adequate to enable him, if necessary, to draw on the maximum resources of the productive organisation; otherwise, it is clear, a part of those resources is ineffective.

As we have previously noticed, individuals in the modern world obtain their purchasing power through three sources--wages, salaries, and dividends. This purchasing power is taken away from them through the medium of what we call prices, and it will be quite obvious to you that the first thing necessary is to make total purchasing power equal to total prices, a proposition which has no other known solution than by the addition of a credit issue to purchasing power. That is to say, we must give the consumer purchasing power ***which does not appear in prices***.

Please remember that prices contain not only production costs, but capital costs, and these latter are the increasing factor in both costs and prices. If we take them out of prices and distribute them as purchasing power, then prices bear the same relation to costs as does consumption to production. You will see that this is so if you remember that capital charges. represent sums based on the credit value of tools, etc.

But, of course, this results in speedy bankruptcy to the producer who is selling under cost, unless we go a good deal further.

It must be borne in mind that, though we find that we require to eliminate these credit-capital charges from prices, the credit-capital is a real if intangible thing, and can be drawn upon, because tools, processes, solar power, etc., represent a real capacity to deliver goods and services. Therefore there must be something somewhere which stands in the position of trustee for the collective credit, and should administer it in the interests of the individuals. There is such an organ--it is the Treasury.

But the Treasury does not in normal times deal with manufacturers, it deals with the banks, and the banks are so-called private institutions which administer this collective credit for their own ends, and those ends are by no means similar to the ends of the community of individuals from whom the credit takes its rise.

If, therefore, we wish to solve the first half of the problem, that of the control, in the interest of the consumer, of the credit issued to manufacturers, we have to put control of the policy of the banks at the disposal of the consumer interest.

If, at the same time, we wish to ensure that the goods, when they are produced, are distributed amongst the individuals in whose interest***, ex hypothesi***, they were made, we have to get the credit purchasing power which attends the capacity to make and deliver them into the hands of those individuals. We can deal with this latter problem in two possible ways--either by a gift of Treasury "money" obtained by a creation of credit, or by reducing prices below cost to the individual consumer, and then making up this difference between price and cost by a Treasury issue to the producer. I hope you realise that the only basis for such a credit issue is the difference between what the productive organisation is called upon to deliver and what it could deliver if its capacity were stretched to the utmost.

The latter of the two foregoing alternatives is, I think, by far the more practicable, because it not only delivers the purchasing power at the moment that it is wanted--at the moment of purchase--but it is also far better adapted to the psychology of the present time. It is the method which has been embodied in the suggestions which Mr. A. R. Orage and I have been endeavouring to bring to the notice of the public in the Draft Scheme for the Mining Industry.

This scheme has been fairly widely discussed, both here and in America, but there is one feature of it which will perhaps bear a little elaboration--the obvious traversing of all accepted Socialist policy in the provision not only for the continuance of dividends to present shareholders, but the wide extension of those dividends to still more shareholders. I will not take up your time with the philosophic basis of the proposal, although it has such a basis; but would merely draw your attention once again to the quite undeniable fact that there is simply not room in economic industry--by which I mean industry financed from public credit--for more than a small and decreasing fraction of the available labour. The attempt to cram all this human energy into a function of society which has no need of it is neither more nor less than lunacy. But we have to recognise, as a matter of common sense, that to throw a large and inexperienced section of the population out of its usual pursuits suddenly, and without preparation, and with more spending power than it has the training to use, might have a number of unpleasant consequences. I do not believe for one moment in all the nonsense talked about work and drink being the only alternatives of the British working-man--it is a gross calumny; but a smooth and rapid transition stage is desirable, and that is provided in the scheme by the increasing substitution of wages by dividends. When this process had proceeded far enough we should have defeated also one of the worst features of the present system, which is unable to distribute goods made and stored, without making more goods, whether these are required or not, merely for the purpose of distributing purchasing power. You will no doubt ask what are the prospects of such a scheme as we are considering.

Well, in the first place, it has to be observed that the uncoordinated parts of it are coming into being with tremendous rapidity and, to those who have eyes to see, with irresistible momentum. In this country it is quite obvious that not only cannot the public debt (all issues of securities, whether to so-called private companies, local authorities, or Governmental bodies, are public debt fundamentally) be reduced, but the business of the country cannot be carried on for a month without a continuous increase in it. The immediate effect of an attempt to restrict the flow is a slump in trade and an avalanche of business crises, which is only just beginning, but which will, unless I am very much mistaken, or war provides an alternative, proceed to lengths quite sufficient to establish the principle.

The mechanism is being forged. The Brotherhood of Locomotive Engineers in America has, on the first of this month, opened the doors of the first of a series of banks whose credit rests fundamentally on the railway services of the American Continent, not on the cash in the vaults of the bank. The Confederation General de Travail is about to inaugurate a bank with a nominal capital of 25,000,000 francs on the same lines. These are the beginnings of the shifting of control.

The operations of these organisations will, in the first place, assist in raising prices--in fact, by enormously enhancing the economic power of Labour, will tend to raise them considerably. But as the toothache is the only agency which will drive the majority of people to a dentist, there will be posed thereby a plain issue--and to that issue I do not know any other reply than that I have endeavoured, so far as time has allowed, to put before you.

(The End.)