<u>Money: An Historical Survey</u>

Notes for Major Douglas's speech on July 26 at the Social Credit study course for Conservatives at the Bonar Law College, Ashridge

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There are at least two reasons for the special pleasure I am afforded by the opportunity of addressing you.

Perhaps the lesser of these is that, to the extremely small extent that I can be said to have any party politics, I am a Conservative. In my opinion this is a conservative country, although it has been for many years, and is, governed by Whig policies. If I can do even a little to awaken you to a consciousness of what I mean by that, I shall be especially gratified.

And the second reason is that this institution is a memorial to probably the only Prime Minister we have had in this country for many years who gave any public *evidence* of competence or understanding of the problems with which Great Britain and the world are faced. It was a misfortune the extent of which it is difficult to estimate that he was prevented from longer service to us. We might be in a very different situation now if Mr Bonar Law had been Prime Minister during the past 15 years.

You will gather from what I have just said that so far from coming to you as a propagandist of subversive doctrine (an idea which financiers are most anxious to convey) I am, in my own opinion at least, asking you to consider whether conservative opinion in this country has not yet been betrayed into the support of policies which are traditionally alien to it and to the vast majority of us, and which genuine conservative opinion would repudiate if it were conscious of its true implications.

A minute or so ago I said that the policy of this country was and is a Whig policy. Now I should like you to place this statement side by side with the accusation which is universal on the Continent, in regard to both British and United States policy, that it is hypocritical. Because the keynote of Whig policy, which is predominantly a policy based upon orthodox finance, is hypocrisy – the justification, on some allegedly moral ground, of policies which are in fact not merely narrowly selfish, but pragmatically disastrous.

I should like to emphasise at once that Social Credit is not an artificially concocted plan either of my own or of any one else's. That is exactly what its opponents wish to argue about. While I am satisfied that the technical proposals which have been associated with it are reasonably sound (and I must add that the conviction is only strengthened by the complete failure of its opponents, either here or elsewhere, to establish their criticisms), the fundamental idea is simply the antithesis of Whiggism, namely, that the first essential of a stable, peaceful and successful society is to get at the truth and to present – not misrepresent – the truth to everyone concerned. "Credit is the substance of things hoped for, *the evidence* of things not seen," and no stable society can endure on *false* evidence.

You will at once wish to observe that I have so far not brought forward any evidence in support of my suggestion that we are carrying on our national business on a basis of false information. I agree; and I will endeavour, however inadequately, to make this essential point.

To take the general proposition first. You will agree that we live in a money economy – that no one can live nowadays without money. Well, if the distinguished economist who is my critic here – Mr Hawtrey – had no other claim to consideration (and he has many such) he would have rendered a signal public service by enshrining in the "Encyclopedia Britannica" the words, "Banks create the means of payment out of nothing."

The whole of our civilisation rests upon the possession of the means of payment. It *need* not so rest, but it does in fact so rest. Taxation in money, fines as a punishment for legal offences, and other devices, quite apart from the use of money as a medium of exchange, are all devised with a view to make the power of the creation of money the fundamental power of civilisation. This power is fraudulent both in fact and ownership; but I would ask you to realise the absurdity of a complaint against the private ownership of, say, minerals, when there is an international private ownership of credit.

The history of money is one long unbroken history of fraud, and the acquisition of this power of money-creation by the banks is the final chapter. Without attempting to cover the historical aspect of the matter, one phase of it seems to me to be useful as indicating the basis of modern banking. Originally, just as a railway issues its own tickets, the wealth producers of the world, thousands of years ago, produced their own tickets. In those days the ownership of beasts of various kinds was the chief form of wealth, and of course the cattle had to be fed. Very often the rich man, the man who owned a lot of cattle, had not sufficient corn or fodder to feed the rest. The merchant of grain and fodder was generally an itinerant, and it was not always convenient for him to take away the cattle; so he took from the cattle owner a leather disc which represented one head of cattle. Sometimes it had on it a rude engraving of the cow's head, or something of that sort, and sometimes it hadn't. Indeed, most of you know as well as I do that the Latin word for cattle is *pecus*, and our modern word pecuniary derived from it is historical proof, if any were necessary, of the derivation of the first money.

Now, in that simple arrangement there is one point of immense importance to be noticed, and that is that the owner of the wealth, that is to say the owner of the cattle, actually, literally, in truth, *made* – not metaphorically but actually – *made* money representing his wealth, in the same sense that the railway makes tickets – not in the sense that the modern businessman "makes" money when he says he makes money. It is so long ago since he made any money that he has forgotten probably that he ever did say it, but when he did say it he was mistaken; he never made a cent in his life. If he had he would have been in jail for counterfeiting. All *he* did was to get money that somebody else had, but the original man about whom I am talking for the moment, the owner of cattle, actually *made* money. He made his leather discs as the owner of wealth; they were token of wealth which existed, those discs, and the issuer of the token and the owner of the wealth were the same person.

Now – to carry our minds back a considerable distance through history – in the fifteenth and sixteenth centuries, when Europe was rent with various kinds of wars, and the chief owners of wealth were the feudal nobles, a great deal of their wealth was in the form of gold and silver plate. This was made by people who were called goldsmiths, and because of the supposed great value of these metals, the goldsmiths had very good safes for those days to take deposits, and it got to be the habit of the feudal nobles not merely to have their gold plate made by the goldsmiths, but to deposit or leave it with the goldsmiths for safe keeping, and the goldsmiths gave a receipt for this gold plate, signed on parchment. It became a great convenience for the owner of one of these receipts, should he want to buy, say, a piece of land – instead of drawing out the gold plate or gold coins deposited with the goldsmiths – to hand over the receipt. Instead of actually drawing out the wealth, he handed over the *so-called* wealth, and these receipts on parchment signed by the goldsmith were the direct lineal ancestors of your modern bank notes.

At this point something happened which was not present in the original conception of money as issued by the owner of cattle. The right of issuing money was transferred from the creator or the owner of wealth to the custodian of wealth. Not the man who produced wealth, nor the man who owned it, but the man who took care of it issued the receipt which, as I say, was the lineal ancestor of your modern bank note.

That was one of the most epoch-making things, though probably unnoticed until the present time, that has taken place in the history of the world in the last two or three thousand years; because it was the goldsmith's signature upon this parchment receipt which made it pass from hand to hand – not the name of the owner of the wealth – so that this power of creating money which is so important, passed to a third party who was neither the owner nor the creator of wealth; but merely its custodian.

There is no doubt that at this point some dishonest goldsmith found that a large number of his clients left their values in his care almost indefinitely. They were safer with him than elsewhere, perhaps even in the castle of the owner, so that there was always a tremendous amount of wealth in the actual custody of the goldsmiths which apparently was never drawn out. Our dishonest goldsmith had the bright idea of issuing several receipts for one piece of wealth, on the assumption that those receipts would not all be presented at the same time. It was particularly easy where merely gold coins had been deposited, for if by any chance an owner of wealth did ask for his gold crowns, he would get them, because they need not be the same gold crowns that had been deposited. So it was found quite safe in a general way to issue more receipts for wealth than the wealth which had been deposited.

That, without doubt, was the first inflation, and of course it gave the goldsmith the value of all the receipts in excess of those which represented wealth actually deposited. That process, beginning undoubtedly in fraud, grew so common that it became the convention amongst bankers, who were the descendants of the goldsmiths, to do this thing; and they have always for the past several hundred years been in the habit of issuing more receipts for wealth than the actual wealth which was deposited with them. At the present time it is a well-known convention, not denied by bankers themselves, that for every dollar of legal tender which they have, they issue nine dollars of credit money which they actually create themselves; just as the goldsmith, not by exactly the same process, created those false receipts representing deposited wealth which was not there. Now, no scheme of that kind so obviously fraudulent, in its beginnings at any rate, could have proceeded so long as it did, and for that matter does at the present day, if it had not served a very useful purpose. In fact the additional receipts were passed as money, facilitated trade, kept goods moving and were in every way an advantage, even to the general population. They were of the greatest advantage, of course, to the banker, but they were also of great advantage to the public, as they provided it with money.

Still a third thing has happened to the money system. Until a very short time ago, practically up to the beginning of the European War, the convention was that either a banknote or a cheque on a deposit – which was simply an order to a goldsmith to pay so much to somebody else, which is exactly what was done in the old days – both of those things, the banknote or the cheque, were supposedly cashable at any time in tangible wealth at the bank – in golden sovereigns, in fact.

The idea was that the bank was a custodian of a certain amount of tangible wealth, and that could be drawn out by means either of a banknote which was payable on demand, or by cheque, and the actual tangible wealth could be taken away. That was the convention.

There is an idea put forward by people, who ought to know better, at the present time, that banking is that sort of thing now. It is nothing like that, as I propose to show you. There used to be, of course, a lot of bank failures, even in Great Britain, and those banks failed because people suddenly decided, all at once, to draw out the things for which they had orders on the bank in form of banknotes or cheques, and when they all tried to draw out at once, they found that what they wanted was not there.

It never was there; it never has been there for at least a hundred years. The bank has never consisted, in the last hundred years, of merely handing out at one end of the counter what was put in at the other. No bank ever paid a dividend in the last hundred years on the process of merely lending that which it took in. There is no possible doubt at all about this thing. I sometimes wonder why it is that certain protagonists – certain defenders – of the present banking system go on arguing about this matter. There is no possible doubt about it. And since the war the convention that you could get golden sovereigns in return for your cheque or banknote has not even had a plausible foundation. All you can get for a banknote is another banknote. There is no longer any obligation to hand over anything more tangible than some printed paper.

In brief, the creation of money, once performed by the producer of wealth, then by the custodian of wealth, who fraudulently issued more paper than the wealth he guarded, has passed to a set of people who neither produce, nor own, nor guard the wealth, but are merely book-keepers.

The great thing to notice about this situation is that the creation of wealth – the real creation of goods and services which go to make a standard of living, the thing which makes the difference between starvation and comfort, and makes all those things that we call civilisation – the actual making of these things is carried on by one organisation, but the making of money, by which alone these things can be transferred from the producers of wealth to those who wish to consume it, is carried on by an entirely separate organisation, having no real connection with the production of wealth at all, not even as its custodian.

It is exactly the same position as if you had a railway in which one set of people were providing trains, rolling stock, permanent way, signals and railway stations – everything in fact, including both men and material, necessary to operate the railway – and you had a totally separate organisation, not fundamentally connected with the railway system at all, which had got control of the ticket office and was making its own terms in regard to the tickets, and was saying, “We don’t care how many seats in the train there may be; we don’t care how many people want to travel on the train. We will alter the number of tickets, restrict them, or do anything that we like with the tickets just to suit our conception of the best policy from our point of view, and if your population wants to travel on those trains, even if there is sufficient accommodation on those trains, well, that is just their bad luck. They may or they may not, according to *our* policy.” That is not an exaggeration and it is not intended to be even a condemnation of any organisation in particular. It is just a plain statement of fact, of the conditions which obtain at the present time. I am certainly not here as a moralist; but as an engineer. I have an appreciation of the importance of foundations. I find it incredible that a stable society can persist founded on the most colossal lucrative fraud that has ever been perpetrated on society.

It is one of the tragedies of this fraud upon society that the control of credit and the control of information in all its forms – education, publicity, etc. – are concentric and interdependent, and it is obvious that the primary use which is made by the financial hierarchy of this control of information is to mould public opinion into channels which will buttress the usurped authority and hypnotise whole communities into asking for what they do not want. A commonplace instance of this is that of referring to the "unemployment problem" when the achievement of leisure is meant. I have even heard it stated that the proper object of labour-saving machinery is to increase work; but it is not necessary to emphasise that the idea in the mind of the inventor of a labour-saving device is to save labour and therefore to achieve leisure.

The mechanism by which finance moulds economic thought is well exemplified in the London School of Economics. Its chairs were endowed by Sir Ernest Cassel, on whose behalf we fought the Egyptian War of 1882 with its present repercussions. So successful is this hypnotic process that, so far as I can judge, a thorough academic training in economics – so-called – is almost a fatal handicap to a commonsense apprehension of the subject. Only a brilliant economist like Mr Hawtrey, with all the orthodox training, familiar with the thought of other brilliant economists, and steeped in the tradition of the Treasury – which is the Tweedledee to the Bank of England's Tweedledum – would suggest, for instance, that a country like Great Britain, with a National debt of £8,000 million, which is increasing daily, has on the average paid for, and is paying for, what is produced.

If I manage to live by increasing the mortgage on my house, it seems to me a misuse of language to say that I am paying my way. Might I add that despite his heavy handicaps, I perceive signs that Mr Hawtrey will join other economists who are becoming and have become realists! He was good enough to send me an advance copy of his remarks, which I have read with interest. I do not propose to deal with them in detail here because I do not consider this occasion as a debate, but as an invitation to state my views. If he *should* desire it, however, I will see that his objections, which are not new, are *again* answered categorically.

The core of the *technical* accusation made by us against the present financial system is *that prices contain items not represented by money anywhere, and that these unmonetised items are represented by debt which is increasing and which cannot be liquidated.* Mr Hawtrey has not in my opinion dealt with this core of our charge, and, as it is a patent fact, he cannot possibly deal with it. It is from this fact that the major evils of civilisation arise, including war.

The Social Credit technique is simply a method of dealing with the defects disclosed by the analysis. I believe it to be logical, sound and practical, but I am willing to discard it tomorrow in favour of anything which is based on an admission of the analysis and which achieves effective distribution *and, at the same time, release from regimentation.*

For those who wish to pursue the matter into technical detail there is now a large bibliography available, and in my opinion the matter is better pursued in this way. The principles involved are simply (a) that provision shall be made for the purchase of all consumable goods *at the rate at which they are produced;* (b) that the debts created by the inevitable creation of capital assets (which Mr Hawtrey calls fixed assets) shall be distributed and not annexed by a predatory banking system, thus providing the population with the economic security they have earned, and abolishing "the struggle for markets."

If we hypocritically claim that the employment system is a moral system and that man must be *kept* at work, rather than *choose work*, we are sealing the doom of this civilisation.