PAMPHLETS ON
THE NEW ECONOMICS
No. 16

THE A + B THEOREM

BY

H.M.M.

PUBLISHED BY
STANLEY NOTT LTD
69 GRAFTON STREET, FITZROY SQUARE
LONDON W

PRICE: SIXPENCE NET

THE NEW ECONOMICS LIBRARY

THE A.B.C. OF SOCIAL CREDIT
New and cheap edition
by E. SAGE HOLTER
Crown 8vo. 2/6 net

AN ALPHABET OF THE NEW ECONOMICS
Ready Shortly
A glossary for the plain man
by A. NEWSOME
Crown 8vo. 3/6 net

CREDIT-POWER & DEMOCRACY
Fourth, enlarged and revised edition
by C. H. DOUGLAS
Crown 8vo. 3/6 net

ECONOMIC DEMOCRACY
Fourth, enlarged and revised edition
by C. H. DOUGLAS
Crown 8vo. 3/6 net

CONTROL & DISTRIBUTION OF PRODUCTION
New, revised and enlarged edition
by C. H. DOUGLAS
Crown 8vo. 3/6 net

WARNING DEMOCRACY
New and enlarged edition
by C. H. DOUGLAS
Crown 8vo. 3/6 net

PUBLISHED BY
STANLEY NOTT LIMITED

PAMPHLETS ON THE NEW ECONOMICS

Each Sixpence Net

1. **C. H. DOUGLAS** — The Use of Money
2. **C. H. DOUGLAS** — The Nature of Democracy
3. **THE MARQUIS OF TAVISTOCK** — Short Papers on Money
4. **THE EARL OF TANKERVILLE** — Poverty Amidst Plenty
5. **A. R. ORAGE** — The B.B.C. Speech and The Fear of Leisure
6. **VERY REV. HEWLETT JOHNSON, D.D. (Dean of Canterbury)** — Social Credit and the War on Poverty
7. **WILLIAM WARD** — The National Dividend: a Symposium by 16 Public Men
8. **EZRA POUND** — Social Credit: An Impact
9. **POEMS BY ALFRED VENISON** — Social Credit Themes by the Poet of Titchfield Street
10. **HELEN CORKE** — From Scarcity to Plenty: A Short Course in Economic History
11. **MAURICE COLBOURNE** — The Sanity of Social Credit
12. **HERBERT READ** — Essential Communism
13. **STORM JAMESON** — The Soul of Man in the Age of Leisure
14. **BONAMY DOBRÉE** — An Open letter to a Professional Man
15. **EDWIN MUIR** — Social Credit and the Labour Party
16. **H.M.M.** — The A + B Theorem
17. **A. L. GIBSON, F.C.A.** — What Is This Social Credit?

Printed in Great Britain

THE A PLUS B THEOREM

THE DOUGLAS MANUAL

A RECENSION OF VERBATIM PASSAGES FROM THE WORKS OF MAJOR C. H. DOUGLAS OUTLINING SOCIAL CREDIT

Compiled by Philip Mairet

Fifth Thousand PRICE 5/- NET

" The works of Major Douglas throw out a challenge which every thinking man must appreciate."—The Spectator.

" Mr. Mairet has performed a difficult task to admiration. Only those who have gone from book to pamphlet in search of an elusive quotation will fully realise the usefulness of this compendium."—New English Weekly.

" His manual may be commended to all who wish to understand this economic theory . . ."—The Morning Post.

" Mr. Mairet's efficient work of compilation has made it possible for interested laymen to master the brief of the economist whose work has provoked the most bitter fury and the intensest enthusiasm of any published since the European War."—Time and Tide.

" . . . for those hearing of the Douglas theory for the first time, here it is, presented in authoritative and readily accessible form."—Review of Reviews.

" . . . even among active supporters and critics of the scheme a thorough knowledge of its details is often lacking . . . the 'Manual' can be accepted as thoroughly authoritative, and it offers a convenient opportunity to anyone wishing to study a theory which can no longer be ignored . . . unusually well printed and has a good index."—The Yorkshire Post.

" The book will be very disturbing to all disciples of orthodox economics. With simplicity and with unanswerable logic it calmly overturns the most cherished of doctrines and so-called axioms."—Vancouver Daily Province.

" . . . the book should be read by all conservatives who are not yet familiar, at first hand, with Major Douglas's theories. Here, in the briefest and clearest form, is the complete outline of these theories. . . . Major Douglas is, at the lowest estimate, a strong original thinker in the field of economics. Knowledge of his thought cannot fail to benefit anyone who is seeking the way out of our present waste land."—The English Review.

THE A + B THEOREM

By

H. M. M.

STANLEY NOTT LTD.
69 GRAFTON STREET FITZROY SQUARE
LONDON

THIS EDITION
FIRST PUBLISHED IN 1935
PRINTED IN GREAT BRITAIN BY
WESTERN PRINTING SERVICES LTD., BRISTOL
ALL RIGHTS RESERVED

THE A PLUS B THEOREM

By H. M. M.

I

THE world is at a crisis, probably the greatest in its history. It is called upon to solve the problem now known everywhere as "Poverty Amidst Plenty," but is failing to do so, a failure which leads directly to revolution or war, and must ere long destroy civilisation itself if not rectified; and it is failing because those who direct its affairs, governments and government officials, bankers and economists, leaders of thought and business men, are facing the problems of a power-machine age with Stone Age minds.

Though it is perfectly evident that we can produce goods of all descriptions in almost boundless profusion, with a decreasing amount of human effort, and can, therefore, if we will, provide everybody with increasing leisure and all the physical means to a full and satisfying life, they persist in believing that it is possible to distribute to the community the output of a constantly accelerating productivity through the constantly contracting channel of wages, salaries, and dividends. It cannot be done.

Fifteen years ago Major C. H. Douglas, in *Economic Democracy*, and in subsequent books, demonstrated its impossibility; and he crystallised his demonstration in the

A plus B Theorem, the following statement of which is taken from *The Monopoly of Credit*:

"In any manufacturing undertaking the payments made may be divided into two groups: Group A: Payments made to individuals, wages, salaries, and dividends; Group B: Payments made to other organisations, raw materials, bank charges, and other external costs. The rate of distribution of purchasing power to individuals is represented by A, but since all payments go into prices, the rate of generation of prices cannot be less than A plus B. Since A will not purchase A plus B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the description grouped under A."

As money and credit bulk largely in the discussion that follows let me set down a few facts concerning them before discussing the theorem itself: it may save some repetition later on.

All trade and industry is run on credit. That is not always apparent because many business firms, chiefly retailers, never borrow from the banks at any time; but investigation will show that they are usually only saved from borrowing by the fact that the dealers and manufacturers they buy from do it for them, and are able in consequence to allow them a month or two's "credit" before requiring them to settle their accounts—that is, in many cases, time enough to sell their goods for cash before they have to pay for them.

Money in the common everyday sense—coins and notes—is merely the small change of credit, and gets into circulation only through the creation of credit, by the banks. It is withdrawn from circulation and immobilised—which, in effect, is the same as ceasing to exist—when it is paid into a bank as savings, or to pay off a loan or

reduce an overdraft; and it returns to circulation again when savings are withdrawn, or when it is wanted in connection with new issues of credit. But all money operations are merely ripples on the surface of credit operations; and despite any apparent evidence to the contrary money has no independent life of its own apart from movements of credit.

Credit is the all-important factor, and is created by the banks out of nothing at the mere cost of paper and ink. It flows out from the banks to the community as income—and debt—via the channels of production, and flows back again to them, in repayment of debt, via the channels of consumption, when the community spends its earnings; and, when repaid, it is cancelled and ceases to exist. It originated out of nothing and has to return again to nothing when its cycle of operations is complete.

It should be noted particularly that all money and credit, in being spent, is on its way back to the banks to cancel loans and extinguish purchasing power. Banking policy demands it; and the pressure of interest charges ensures compliance with the demand.

These are all perfectly orthodox statements of fact which need not be argued here; but if their truth is not immediately apparent to the student it will be found fully established in the writings of H. D. Macleod (*Theory and Practice of Banking*), R. G. Hawtrey (*Currency and Credit*), and Reginald McKenna (*Post-War Banking Policy*).

It is also desirable, for clear understanding, to divide credits into two groups—new credits, and replacement credits. New credits are those which reach the community as income—wages, salaries, and dividends: replacement credits are all other credits. These latter are not income to anybody: they merely pay off and replace older credits

—either earlier new credits or earlier replacement credits —and serve to transfer goods from one trader to another *within* the productive system; but not being anybody's income they are powerless to transfer goods out of the productive system for final use or consumption by the community.

Since all money and credit in circulation represents a debt due to the banks, and as all goods are produced on credit, it follows that a debt, due to and manufactured by the banks, attaches to all goods so long as they are in the hands of business firms, that is, so long as they are being bought to be sold again. This debt is transferred with each transfer of goods from trader to trader, by means of replacement credits, and is only finally paid off when the goods, now probably very much transformed, are bought by a final consumer and paid for out of his income.

Even then, however, there is really only a transference of debt from one cycle of production to another. The goods we buy to-day were produced on credit. The money we buy them with goes to extinguish the debt; but the money itself, our earnings, is accounted in the cost of goods not yet on the market, and represents an undischarged debt due to the banks which must be met in the future; and the same transference of debt takes place whenever consumers spend their money.

From this tremendous power possessed by the banks, to manufacture debts against the community by pledging the community's own assets, and claiming repayment as something due, not to the community whose assets they have pledged, but to themselves, confiscating to themselves those assets in case of default—brought about in most cases by their own deflationary acts—it follows that it is only a matter of time before all the community's assets are transferred or in pawn to the banks or their

satellite institutions. It is probable that, even now, the greater part of the nation's assets—even of people who deem themselves solvent—are in pawn to them, either directly on account of individual loans and overdrafts, or indirectly as joint security for the National, municipal, and other corporate debts.

II

Bearing these facts in mind let us now return to the theorem.

Honest enquirers, on first encountering it, readily admit that the price-values created by any business firm are made up of these two groups of costs—internal payments of wages, salaries, and dividends to its employees and shareholders (A), and external payments to other concerns (B); and they also agree, with rather more reluctance—chiefly because the idea is new to, and startles, them—that the joint incomes of employees and shareholders is insufficient to buy the whole of the firm's output; but they have usually some difficulty in agreeing that what is true of every individual firm is necessarily true of them all taken simultaneously together. The laws of arithmetic require that they should agree; but two considerations tend to make them defer or withhold agreement. The first is, that when they begin to analyse the B payments they discover that they represent wages, salaries, and dividends also, and not being deeply versed in matters of finance they are apt to conclude, without further examination, that this purchasing power is still in existence, and that Douglas's analysis is, therefore, wrong. The second is, that it appears to them that if his analysis is right the economic system should have broken down long ago.

As regards the first point, it is perfectly true that B payments represent payments of wages, salaries, and dividends; but it is untrue that this purchasing power is still in existence. A closer scrutiny reveals that these B payments only *represent*, they do not *constitute* wages, salaries, and dividends. Except for the profit of the traders immediately receiving them—and that duly appears as an A payment in their accounts—they consist wholly of replacement credits which merely transfer goods and debt and pay off and replace older credits outstanding. They are not fresh disbursements of income to anybody.

The goods transferred have a body of costs attaching to them, and these costs, on an ultimate analysis, can be resolved wholly into payments of wages, salaries, and dividends; but these were earned and spent in the past, often a far distant past, and, in being spent, passed out of existence leaving unbalanced costs behind, to be carried, if they are carried, by later replacement credits. They may have formed part of the cost of plant and machinery constructed perhaps twenty years before, or a factory built fifty or more years before; but it is certain that the greater part of the money—all but a small fraction of savings—was spent when it was earned, and also that the banks did not wait either twenty or fifty years for repayment of the credits out of which it came, as they would have had to do if it had remained in circulation. (They were probably repaid within a month or two, most credits being, in fact, repaid within a few weeks of issue.) And it is equally certain that the credits were cancelled out of existence on being repaid.

One difficulty which prevents the man in the street from understanding the theorem readily is that, even when he handles bills and cheques daily, he habitually thinks of money as consisting of coins and notes. He sees

money in these forms passing from hand to hand throughout the community, buying goods and paying for services or liquidating debt; being paid into the banks every little while and then coming out again, and apparently having an eternal or fairly prolonged life; so, although he knows that wages, salaries, and dividends change hands in being spent, when he hears that they pass out of existence he is frankly incredulous.

Nevertheless, his observation, while correct enough as far as it goes, does not go far enough, and consequently misleads him as to what is really happening. Purchasing power does pass out of existence when money is spent, even if cash does not. If it did not it would mean that the banks were not being repaid their loans. But, whatever weaknesses banks may have, a disposition to forgive us our debts is not one of them.

Critics of the theorem would be less liable to go astray if they were constantly to remember (1) that it deals with rates, the rate at which incomes are distributed to the community versus the rate at which production costs and prices mount up; and (2) that rates must be measured and compared over the same periods of time. When they make a balance between incomes and prices, as they almost invariably do, they do it by the simple device of ignoring time and dragging into their equation the defunct earnings of the past, or by confusing replacement credits with personal incomes; and they expect us to assume that bankers are benevolent old gentlemen who never refuse loans, or call for their repayment, or charge interest.

One critic, Professor Copland, Professor and Dean of the Faculty of Commerce, University of Melbourne, in *Facts and Fallacies of Douglas Social Credit*, states that he believes it to be the fundamental fallacy of the Douglas

Credit analysis that it is assumed that the so-called B payments are not distributed to consumers; and he illustrates his belief by an extraordinary diagram which purports to show how money and credit circulate. It is headed: "Consumers' Income and Producers' Costs in Equilibrium."

At the top of his circuit is a small circle marked "Producers' Costs" (A = £100, B = £100 ; A plus B = £200). He shows the £100 of A payments passing direct to another equal circle at the bottom of his circuit marked "Consumers' Income," and the £100 of B payments passing by a longer route to the same circle. On the way the B payments split up into four streams marked respectively:

Producers of Raw Material	= £70
Profits to Shareholders	= £10
Power	= £10
Depreciation	= £10

The four streams then re-unite and enter the "Consumers' Income" circle, which is inscribed: A = £100, B = £100; A plus B = £200.

The whole £200 then passes out of the "Consumers' Income" circle by a route marked "Spent or Invested," and arrives at another circle—which for some unknown reason is made smaller than the others—marked "Consumers' Outlay" (£200), from which it passes back to the "Producers' Costs" circle by a route marked "Paid to Producers."

The circuit is now complete: "Consumers' Income" and "Producers' Costs" are shown to be in equilibrium; and the Professor doubtless imagines that he has proved his case; but it would be interesting to know what his fellow-economists think of his diagram.

It will be noticed that there is no banker in his circuit,

no creation of credit, no repayment of it; and, by eliminating time, he is able to perform miracles of buying with purchasing power which, in the real world, would long since have ceased to exist. It is, in short, an ideal circuit, an imaginary circuit that never was on land or sea.

The diagram shows a closed circuit; so "Producers' Costs" must stand for *all* producers' and distributors' costs, and "Consumers' Income" for *all* comsumers' income.

In the world of reality, as distinct from Professor Copland's dream-world, the £200 of "Producers' Costs" would represent borrowings; and as what is borrowed must be repaid—particularly when banks are the lenders—some alteration in the diagram is clearly necessary.

Of the £100 of B payments shown, the £70 paid to "Producers of Raw Material," and the £10 paid for "Power" would, on receipt, go to repay loans or overdrafts. The £10 of "Profit to Shareholders" is out of place, being an A payment; so, to keep the A and B payments at £100 each, we will lump it in with the three other B items.

Depreciation is actually a book addition to costs which does not represent money paid to anybody, but merely money which it is hoped to collect from somebody in prices. Only then can it be distributed. But as we have assumed that the producers have actually paid out £200 we will assume that the £10 of "Depreciation" shown is money actually spent; but, in being spent, it also goes to reduce loans or overdrafts. Thus none of the B payments reach consumers at all.

When the consumers spend their £100 of A payments the retailers pass it on to the producers in payment for goods received: the producers repay it to the banks from

whom they got it; and the banks thereupon cancel it out of existence.

The position then is that the banks have created and lent £200 of credit and been repaid £200. The producers —who in another aspect are also the consumers—have produced £200 worth of goods, and, as a reward for their industry, have received £100 worth. They have also £100 worth of unsold goods on their hands, and there is no money in anybody's hands—whether producer or consumer—to buy it with; so, despite Professor Copland's confident assertion, "Consumers' Income" and "Producers' Costs" are not in equilibrium; and as any new money or credit created and lent will create a new series of costs, the two things never can be in equilibrium, under present conditions.

III

It may be asked next what causes the discrepancy between incomes and prices. It is caused (1) by every deflationary act of the banks which brings about a premature cancellation of consumer credit; and a premature cancellation of consumer credit occurs when the money or credit distributed as the wages, salaries, and dividends which bring goods into existence is recalled and cancelled before the goods it relates to have all passed to final consumers; or, if the goods in question happen to be such things as plant and machinery, if it is recalled at a faster rate than that at which the plant and machinery depreciate. Or, alternatively, it is caused (2) by the failure of the Government, or the banks, to create and issue free to consumers, simultaneously with the appearance of the goods in the consumers' market, sufficient purchasing power to pay the B element in the price of these goods.

Under the conditions now obtaining, if some traders are able to collect the full price of their goods, others must go short and sell at a loss, or be left with their goods unsold.

The banking system is not related in any scientific way to the economic system or the needs of the community. It originated, so we are told, as far as this country is concerned, in the highly-questionable practice of the goldsmiths of London in creating and lending promises to pay gold they did not possess. They had the honesty to cancel these promises when they recovered possession of them again—only to issue new ones!—but they seem to have overlooked the fact that the circulation of their promises to pay having inflated prices, their withdrawal left those prices correspondingly unbalanced. But perhaps they did not overlook the fact, since no more effective means than unbalanced prices could possibly be devised for compelling traders to resort to further bank borrowings; and without borrowers where would the bankers be?

And banking to this day continues to be run on the same unsatisfactory lines; and its power to do harm has increased as productive capacity has increased, its opportunities for inflating and deflating being so much greater; so that it is now the source of practically all economic, political, and social problems.

It is right that purchasing power should be withdrawn and destroyed with the passage of goods to a final consumer; but it is an error of the first magnitude to destroy it, as is done to-day, when the goods bought are capital goods—plant, machinery, etc.—which merely change ownership but do not pass out of the productive system. In such cases the cost of the goods bought will reappear in the buyer's future prices; but there will then be no money in any consumer's hands to balance it; and the

creation of a new B credit to carry it will not mend matters: it will merely delay the day of settlement.

One of the chief ways in which deflation of consumers' purchasing power takes place is through the investment of savings. When the public invest their savings in the shares of any company on flotation their money is used to pay for the buildings, plant, and machinery required by the company. The paying for these things enables the sellers to repay to the banks the credits created for their construction; and the repayment of those credits means also their cancellation by the banks.

Following on this cancellation the company sets to work producing goods; and in its costs it includes depreciation charges to enable it to recover the value of its capital, so that it can renew the plant and machinery when they wear out. That is a perfectly right and proper thing to do. If it did otherwise it would not remain in business long; but the point to be noted is that these depreciation charges constitute a second charge or demand on the public's income for the same lot of capital.

Let me illustrate: If the fixed capital—the buildings, plant, machinery, etc.—of all the companies in the country cost originally £1,000,000—to take a nominal figure—that means that £1,000,000 of credit was, over a period of years, created by the banks and distributed to the public through the channels of production, by way of loans, as income for constructing or creating those capital assets.

When the public subscribed £1,000,000 for shares in those companies that amount was repaid to the banks, directly or indirectly, in liquidation of the original loans, and cancelled. How then can the public, out of its income, put down a second £1,000,000 to pay depreciation charges when it only received one? You cannot

get more money out of the public than you distribute to the public, any more than you can get more than a pint out of a pint pot.

To anyone who may still have doubts as to the accuracy of the A plus B Theorem let me quote a statement of Professor Bowley's written in 1921. "National income," he wrote, "is equal to the total value of goods and services produced or rendered in the United Kingdom, together with interest, etc., from abroad (less payments), the expense of maintaining capital being deducted."

To get at the basic truth of this definition let us simplify it by re-stating it in terms of world-income. The words "interest, etc., from abroad (less payments)" then disappear, there being as yet no inter-planetary trade or financial dealings. The definition then reads: "World income is equal to the total value of goods and services produced or rendered in the world, the expense of maintaining capital being deducted." But as the total *price* of the goods and services produced or rendered *includes* the expense of maintaining capital, how can the world's income, being less than that price by the expense of maintaining capital, ever pay the price? It cannot. Professor Bowley has, unwittingly, enunciated the A plus B Theorem in a different form; and I commend his version particularly to the notice of economists and others who deny that there is any discrepancy between incomes and prices; or, if they do admit it, deny that it is large. Professor Bowley's statement shows not only that it exists but that it is very large, being nothing less than the expense of maintaining the nation's capital. The loss to the community is infinitely greater than even the figures would show; for the existence of the discrepancy puts the whole productive system in chains and prevents it from functioning in the interests of the community at anything but a

fraction of its capacity; and what is produced is in the wrong proportions—an excess of capital goods in relation to the output of consumers' goods.

IV

The next point to consider is why, if the Theorem is true, the economic system did not break down long ago.

It cannot be said that an economic system which can only run to an accompaniment of bankruptcy and unemployment; strikes, revolutions, and wars; crime and lawlessness; murders and suicides; squalor, degradation, and wretchedness; overcrowded slums and depopulated countrysides; starvation, preventable disease and death, is running very successfully, or is ever far removed from complete breakdown; but what has delayed that happening hitherto is the great development of loan-credit transactions.

In his statement of the Theorem, given at the beginning of this booklet, Major Douglas wrote: " Since A will not purchase A plus B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the description grouped under A."

The form of purchasing power there referred to is at present loan-credit (manufactured debt). Under a Douglas regime it would be a free National Dividend, not a debt.

Loan credit to carry the proportion of the product equivalent to B is advanced, at present, chiefly for capital development at home, capital development abroad, and, when the bankers' hellish brew boils over, for the financing of war. There is a close connection between the export trade and the business of foreign loans; and

students of world affairs know that one of Britain's chief activities since the industrial era set in has been the granting of loans to foreign countries. The reason for that is the fact established by the Theorem that the people of Britain cannot buy all they produce; and as the idea of creating consumer purchasing power to enable them to do so has not yet penetrated the heads of our rulers, some other—foreign—market has had to be sought for the surplus. Without an outlet for this surplus the industrial system would cease to function, under present conditions; but as foreigners are no better supplied with money than ourselves it has had to be created for them. Hence the origin of these foreign loans.

By means of loan credits which were nobody's income, the otherwise unsaleable surplus was used first of all to industrialise Britain, and then the world; and it is no exaggeration to say that most of the industrial capital—plant, machinery, etc.—exported during the last hundred years or so, by means of British loans, was in essence, although not in form or intention, a gift to the world by the British people of their surplus production. Beyond the help it gave in keeping the industrial system running nobody derived a halfpenny of benefit from it.

In *The Times Trade Supplement* of 1st November, 1930, Sir Arthur Samuel, M.P. (formerly Parliamentary Secretary to the Treasury in the Conservative Government) wrote: " Therefore, at a cautious estimate I say we have lost not less than £2,000 million in overseas investments during the last sixty years. . . . It is not unlikely that our loss has been much heavier, perhaps even £4,000 million."

It must be remembered that these exports were not exports to pay for imports: they were surplus exports, forced exports sent abroad in a vain endeavour to capture

money. If they had been allowed to take the form of goods to satisfy the British people's own personal needs, and if the necessary money to buy them had been supplied to the public, the history of this period would have read like an account of the Golden Age.

In industrialising the world Britain sowed the wind: she is now reaping the whirlwind. The countries she industrialised no longer need her products. They have, with her assistance, so increased their productivity that they now make for themselves what they formerly bought from her; and they have also so increased their unsaleable surpluses—being cursed with the same faulty financial system as herself—that they must increase their exports, and are eating into both her home and her remaining foreign markets. Each industrial nation would now require a whole undeveloped world to itself as a market to absorb its unsaleable surplus products, if it is to maintain its population in employment. That the nations have to share among them a world no longer undeveloped makes permanent peace between them impossible, as things are.

Beginning now to realise that foreign markets, while the need for them is increasing, are closing all round, and will continue to close as more and more countries become industrialised and therefore, industrially, more self-sufficient, and also realising that there will be little demand for loans for capital development in face of contracting home and foreign markets, our financial rulers, in their search for a scheme which will prevent an absolute economic breakdown and yet leave them in control, have hit on the brilliant, or crazy, idea of financing destruction, restriction, and waste. They seem to argue that this will provide a double dose of work—one in producing goods and the other in destroying them—and so help to solve

the unemployment problem. And as there is nothing to prevent our destroying as fast as we produce, if we organise ourselves efficiently for it, it is probably the nearest approach to a solution of that problem attainable under present conditions.

In a mad world the bankers' brilliance—or craziness—has justification so long as the majority of people continue to believe that employment constitutes the sole admissible title of right to an income, and that unemployment is, in consequence, an evil to be cured instead of what it is, the first instalment, in a perverted form, of the Leisure Era.

In pursuance of their idea the banks are financing companies to buy up productive concerns and scrap them. Ships and shipyards, among other things, have been bought up and destroyed; and further developments and expansions of the idea may be looked for. We are so used to such insanities that they hardly even strike us as being odd; but in a sane world anyone who proposed doing them would be kept under observation; and if he attempted to do them he would be at once interned in some home or asylum where he would have few opportunities of doing harm to anybody, even to himself.

If steps were taken to provide people with purchasing power equal to the value of the goods and services available, their ability to indulge in health and pleasure trips would keep both ships and shipyards profitably employed to the end of time.

V

One of the latest critics of Douglas and the A plus B Theorem is H. T. N. Gaitskell, of New College, Oxford, Lecturer in Economics at University College,

London, who contributes an article on Douglas to G. D. H. Cole's book, *What Everybody Wants to Know About Money*.

Mr. Gaitskell makes the usual charge of ambiguity against Major Douglas which professional economists are in the habit of making when forced to deal with his ideas. It is difficult to believe that any "orthodox economists" can interpret him in the fantastic way which Mr. Gaitskell suggests "is by no means unreasonable"; (In the instance given the A plus B costs for producing woollen cloth are added up to make a total of 3,000 for an article which only costs the retailer 1,000!) but if they do—and he assures us they do—their mental processes are beyond fathoming, and one fears they would find ambiguity even in the multiplication table.

Actually, the blame for the ambiguities they profess to find does not lie with Major Douglas at all, but with themselves, in their inability to grapple with new concepts in conflict with their set opinions. And as they are frequently careless about quoting him correctly it is more than probable that they have been equally careless about reading him correctly.

Mr. Gaitskell himself provides a good instance of one or both forms of carelessness. He writes: "Major Douglas takes the case of a man employed on the production of linen. To produce a certain quantity of linen takes six weeks of this man's work and he is paid by his employer at the rate of £1 a week. There are no other costs and hence the cost of the linen is £6. It is true, says Major Douglas, that the whole of this £6 has been distributed, but the fact remains that in the week during which the linen is completed only £1 has been paid and that this £1 alone is available for the purchase of the linen."

When we turn to Major Douglas's book, *The Monopoly*

of Credit, we find that this is what he wrote: "Let us imagine a capitalist to own a certain piece of land, on which is a house, and a building containing the necessary machinery for preparing, spinning, and weaving linen, and that the land is capable of growing, in addition to flax, all the food necessary to maintain a man. Let us further imagine that the capitalist in the first place allows a man to live free of all payment in the house and to have the use of all the foodstuffs that he grows on condition that he also grows, spins, and weaves a certain amount of linen for the capitalist. Let us further imagine that after a time this arrangement is altered by the payment to the man of £1 a week for the work on the linen business, but that this £1 is taken back each week as rent for the house and payment for the foodstuffs.

"Let us now imagine that from the time the flax is picked to the time that the linen is delivered to the capitalist, a period of six weeks elapses. Obviously the cost of the linen must be £6, and this will be the price, plus profit, which the capitalist would place upon it. Quite obviously only one-sixth of the purchasing power necessary to buy the linen has been distributed, although "at some time or other" all the £6 has been distributed."

It will be noticed that Mr. Gaitskell's version of the illustration omits all reference to the fact that gives it point—i.e., that the £1 a week the man got as wages was taken from him each week as rent for the house and payment for the foodstuffs. Why was it omitted? Mr. Gaitskell can hardly say that it was due to Major Douglas's ambiguity.

The essence of Mr. Gaitskell's criticism of Douglas is that there is no shortage of purchasing power except under certain circumstances and then to a very limited extent; but, curiously enough, although he disparages the

A plus B Theorem he admits everything that Douglas ever claimed for it.

He writes: " It is of course true that consumers' incomes are not sufficient to buy semi-manufactured goods and raw materials, but that does not mean that these articles will not be bought. They will in fact be bought by other organisations with B payments. It is true that these B payments and the A payments as well can only be made in many cases if credit continues to be provided. But Major Douglas gives us no special reason why it should not be."

It would be difficult for Major Douglas, or anybody else, to give a reason, special or otherwise, why credit should not continue to be provided when it is so obviously required; but it is an undoubted fact that the banks can and do refuse credit when it is most required. The present long-continued depression began when, round about 1921, they launched against society the drastic deflationary campaign recommended by the Cunliffe Report—hatched in the bankers' parlours; and may I presume to remind Mr. Gaitskell that deflation is merely a forcible reduction of purchasing power which leaves costs and prices dangling unsupported in mid-air, and bankrupts the sellers.

In the quotation just given Mr. Gaitskell clearly admits that consumers' incomes are not sufficient to buy semi-manufactured goods and raw materials—he should have added plant and machinery, the biggest factor in the problem—these being bought with B payments. This is also an admission that B payments are not income. (Perhaps he could enlighten Professor Copland on the point: they seem to hold divergent views.)

Now, if consumers' incomes are insufficient to buy semi-manufactured goods, etc., when these are classified

as such, they still remain insufficient when these same semi-manufactures become embodied in final products. For every further A payment made in the process of transforming them is also an additional cost.

Mr. Gaitskell seems to recognise this; but he reckons it a matter of no importance; for he writes— " Now the available purchasing power depends entirely on the A payments which are being made *during the period of time* when the commodity reaches the market. It is evident therefore that if the employers at the " earlier " stages of production continue to produce the same raw materials and semi-finished goods, etc., and employ the same men week after week the available purchasing power will equal the total A payments made and these will equal the cost of production of the commodity."

There is much virtue in an " if." He might as well have said: " If the public are given enough money to spend the goods will be bought." But the public never are given enough money, nor are all Mr. Gaitskell's conditions—even if they were sufficient, which they are not—ever fulfilled; and I suggest that " if " is too haphazard a word to hang the lives of nations on. There must be certainty. Incomes and prices must be brought permanently into equilibrium and kept there; but they will not come so of themselves: definite action is required, based on scientific knowledge of the factors involved.

The evidence is all against Mr. Gaitskell's assumption. If the employers at the " earlier " stages of production continued to produce the same quantity of goods and employ the same men week after week, it could only mean that they were selling all they produced, at the same prices as before, or better; which again would mean that there was no depression in trade and no men becoming unemployed. Somebody should introduce him to the facts.

Major Douglas would be the first to admit that if the A payments in the costs of goods not yet ready for the final consumers' market—capital and intermediate goods and raw materials—are equal to the B payments in the costs of consumers' goods, all the latter can be bought by consumers. It is self-evident; but he would wonder why anyone should be complacent about it, or regard it as anything but an iniquitous and highly-dangerous state of affairs.

It means, in a sense, drawing on the future to make good the shortcomings of the present. Now, in actual fact, this cannot be done. We cannot eat dinners, wear clothes, or live in houses not yet in existence; but when we tie realities to a system of figures called a financial system, and then start juggling with the figures, we can perform this apparent miracle. We can mortgage the income we hope to be earning next year in order to obtain purchasing power to-day; but the goods to be bought with it are in existence to-day: they are not future goods.

Incidentally, the existence of instalment buying gives the lie to Mr. Gaitskell and his fellow-critics when they assert that there is no shortage of purchasing power. If present earnings were sufficient to buy present goods the instalment system would never have been invented; but its existence proves that the goods are there to be bought, although the money is not there to buy them, and also that purchasing power, supplementary to earnings, can be created at will. If this supplementary purchasing power were converted into a free national dividend, instead of being an artificially-created debt due to the banks, and if it were increased in amount until it equalled the aggregate of all the B items in final prices, the foundations of a really scientific, and socially satisfactory, financial system would be laid.

The instalment system was invented in the interests

of producers to enable them to get their goods sold; and if it were put down by law—as many well-intentioned, but not very practical, people believe it should be—the productive system would collapse like a burst bubble.

The weakness of instalment buying lies in the fact that it is merely a palliative of economic ills, not a cure for them. If we mortgage next year's income now we cannot spend it when next year comes along with a fresh crop of goods; and when the nation has mortgaged all its mortgagable assets—and it has proceeded far in that direction what is there left for it to raise money on?

The conditions postulated by Mr. Gaitskell, and which he seems to find satisfactory, require that two lots of goods shall be produced in order that enough personal purchasing power to buy one of them may be distributed. That in itself is a sufficiently fantastic state of affairs which he will have some difficulty in justifying: it cannot be done within the bounds of reason. To defend it is to defend the expenditure of more energy than is necessary for the attainment of any desired end. It is to defend charging the consumer for two lots of goods and giving him only one—for the second lot of goods plays no part in the creation of the first, and forms no part of its costs; and so the money earned in producing it should not require to be drawn on to permit the first lot to be sold. In plain English it means defending robbery, the robbery of the consumer.

It means saying, in effect, to the workers: "You may make a dinner; or a suit of clothes, or build a house; but you will not be allowed to eat, or wear, or live in it until you have made two, or more, dinners, or suits, or houses. The unfortunate thing, however, is that when he gets the length of making one dinner, suit, or house he has not generated enough purchasing power for himself to enable

him to buy and enjoy it; consequently the very condition —i.e., the creation of a second dinner, suit, or house—which might enable him to reap his reward is in constant danger of not being fulfilled owing to the lack of effective demand for the first.

But let us consider the matter solely in its practical aspects, and under the most favourable conditions, and leave moral questions aside for the moment.

The sale of the first lot of goods to final consumers is achieved by leaving the second lot without any consumer purchasing power to set against it; so, when it enters the final consumers' market, a third lot of goods must be in process of manufacture the A payments of which are equal to the A plus B payments of the second lot. But the third lot will have proportionate B costs attached to it; so, at the next stage, it will be necessary to manufacture a fourth lot of goods, the A payments of which will be equal to the A plus B payments of the third lot; and so on.

So long as those who control the financial system are prepared to finance production for the future on a scale which expands at an accelerating rate from stage to stage the system may go on, and all finished products be sold to final consumers; but it involves piling up reserves of raw materials and intermediate products—including plant and machinery—on a colossal scale and at an accelerating rate from stage to stage; and it is safe to say that before a generation was out we should have to requisition some of the Earth's sister planets to house our stocks.

Apart from the fundamental lunacy of allowing the nation's welfare to depend on such irrational conditions, there are snags which prevent them from ever being fulfilled, except spasmodically and for short, and always growing shorter, periods.

(1) Producers, for financial and other reasons, do not order raw materials and intermediate products much in excess of their normal requirements; so it is clear that the ordinary needs of industry, as regulated by the spending of the nation's income (the aggregate of the A payments), cannot possibly stimulate such an expanding output of these things as the conditions postulated require. Further stimulus can be given by way of foreign loans used to develop and industrialise undeveloped countries; but a point is soon reached at which these countries, having become industrialised, start making industrial products for themselves; and so the way becomes blocked to further expansion, so far as we are concerned. This matter has already been dealt with. To save the situation, as things are, a constant succession of new and undeveloped countries would be required; but as, in actual fact, the number of such countries is limited and is steadily decreasing, while the number of competitors gasping for the chance to develop them is steadily increasing, the prospect of salvation grows more and more remote.

So long as the continued payment of the nation's income depends on the successful sale of an output greater than the nation's income can buy, disaster lies in wait for us.

(2) The banks are under no obligation to issue either A credits or B credits at any time, however much these credits may be required. Trade, industry, and the life of the nation are thus at all times dependent on the whims of bankers. What prospect is there, then, of the bankers granting new credits, for new production, to people who have difficulty in selling what they have already produced?

And as the ratio of machines to men employed increases

so does the ratio of B payments to A payments in prices, and of output to earnings; consequently the greater becomes the output necessary to maintain incomes and consumption at a stable level. Which means that an increasing part of that output must pass beyond the reach of the consumers' income for ever, and have to be bought, if it is bought, with B credits.

Many years ago John Ruskin wrote: " Capital which produces nothing but capital is only root producing root; bulb issuing in bulb, never in tulip; seed issuing in seed, never in bread. The Political Economy of Europe has hitherto devoted itself to the multiplication . . . of bulbs. It never saw nor conceived such a thing as a tulip."

But if goods are to be bought with B credits, and rebought with B credits, and bought again with B credits to the end of time—and this is necessary to make Mr. Gaitskell's conditions theoretically workable—it is precisely this spectacle of " bulb issuing in bulb, never in tulip " we shall be witnessing; and the people engaged in producing the goods would be better employed in digging holes in the ground and filling them up again. They would be less wasteful of the nation's material resources.

In another place Mr. Gaitskell writes: " It is, indeed, the case that individual loans are continually being repaid and overdrafts diminished. But the question, it must be emphatically stated, is not whether particular loans are repaid but *whether on balance the total volume of Bank credit in use by industry is continually tending to diminish.* Only if this is the case can we accept the view that there is a permanent tendency towards a deficiency."

The difference between Major Douglas and Mr. Gaitskell revealed by these quotations is that Douglas, as a

man who has spent his life in practical productive effort, and knows what it means, demands from all effort, and commensurate with it, tangible results *desired by the individuals composing the nation.* Mr. Gaitskell, on the other hand, having, it may be assumed, no personal experience of productive effort whatsoever—and the same can be said of all his fellow-economists—is satisfied with what seems a satisfactory show of *figures*: he does not probe into the realities behind them. So long as goods are being bought he appears to be satisfied that all is well, whether they are being bought with A credits or B credits. Buying, for him, is the important thing, consumption and use hardly matter.

And yet the national prosperity is measured solely by what is bought with A credits. What is bought with B credits may represent potential wealth; but it becomes actual waste unless the B credits are replaced by A credits when the goods reach the retailer's counter.

If " the total volume of Bank credit in use by industry " is increasing in a five per cent. ratio, say, Mr. Gaitskell will assert that there is no tendency towards a deficiency, even if the volume of prices, *the prices necessary to cover costs*, is increasing in a ten per cent. ratio; but that is a comparison he would probably never dream of making. It is not taught in the text-books.

Has it never occurred to him that the volume of credit in use by industry may not be decreasing, may even be increasing, and yet the proportion of A credits in the whole may be less, absolutely or relatively. And will he assert that that means nothing at all in terms of human welfare?

The volume of credit in use by industry only acquires meaning when measured against the volume of prices created by industry; but even if they were equal to each

other a deficiency would exist for the consuming public if the B credits were not being converted into personal incomes as B costs appeared in the final prices that the consumer had to pay.

The question is *not*, however emphatically Mr. Gaitskell may state it, whether on balance the total volume of bank credit in use by industry is continually tending to diminish, but whether the public's income can buy all the goods it wants that the productive system *can* supply, not merely what it *does* supply.

I have quoted Mr. Gaitskell as saying: "If the employers at the 'earlier' stages of production continue to produce the same raw materials and semi-finished goods, etc., and employ the same men week after week the available purchasing power will equal the total A payments made and these will equal the cost of production of the commodity."

He does not mention plant and machinery here, unless he lumps them in with semi-finished goods, etc. and yet the A payments distributed by the industries making these things are just as necessary for balancing the cost of final commodities as the A payments of other "earlier" producers. But, if the same amount of machinery were being turned out and used as before it would mean that the same number of men were being displaced by machines as before, machines being specifically designed to displace men; consequently the number of men employed would continue to decrease.

Mr. Gaitskell may say that the men displaced by machines can be employed in making more machines—he does indeed hint that that is what happens—but the more the men displaced are employed in the making of machines the faster becomes the rate of displacement.

What makes the present situation so terribly desperate

is that machines are now making machines, begetting themselves in almost literal fact, and do not require the services of the men they displace in the slightest degree. Actually, in a machine age, a limit is soon reached to the re-employment of displaced men; and then unemployment becomes an increasingly deadly menace. But if the spectacle of masses of unemployed men, unemployed productive plants and unsold goods, co-existent with a vast unsatisfied desire for those goods—coupled with the fact that the community spends all its income except one or two per cent. saved (investments represent spending)—does not convince Mr. Gaitskell and his fellow-economists that a shortage of personal purchasing power exists I am afraid nothing on earth or in heaven ever will—unless it be the permanent suspension of their salaries.

There is no reason why the matter should ever be in dispute. The Government could easily ascertain the value of the nation's output and the total amount of the wages, salaries, and dividends paid or earned in producing it, and settle the matter once and for all.

Mr. Gaitskell's diagrams, like Professor Copland's, are interesting as showing his conception of reality, but having as little relation to it. They fail to show the double process of credit creation and credit destruction which goes on concurrently with the creation of costs and prices, and are, therefore, quite worthless as representations of the problem with which Major Douglas deals. If Mr. Gaitskell wants to know precisely what is wrong with them let him compare them with the frontispiece to *Economic Democracy*. Is it not strange that men who obviously believe in the value of diagrams as an aid to exposition should have nothing to say about Douglas's? Surely if his general thesis of a shortage of personal purchasing power is unsound the unsoundness will betray

itself in his diagrams? Yet Professor Copland and Mr. Gaitskell both remain silent about them.

VI

In conclusion let me say that the banking system has no virtues in its own right, but only as an adjunct of the economic system. Its sole legitimate business and justification for existence is as a labour-saving device to enable producers to give the public what they want, in the quantity and quality desired, and with the minimum waste of time and effort, and the maximum of speed.

The present controllers of banking policy—I exempt the ordinary bank staffs, and many bank directors, as not being conscious agents of it—recognise no such duty to the public. Their aim has passed far beyond the mere accumulation of profits, and reveals itself as nothing less than the acquisition of supreme world-power over individuals and nations—power without responsibility. By financial manipulation, alternating inflation with deflation, they cause the world's assets to drop into their laps like ripe plums; and by exercising their power to give or withhold credit—the nation's credit—when and where they please they can make the world's inhabitants do their bidding without knowing it, and against their will and inclination.

If they exercised their power with intelligence and statesmanship for the good of humanity one could find excuses for them; but in their insensate craving for power for its own sake they seem prepared to sacrifice everybody and everything. The late war, although not desired by them, was the automatic outcome of their policy; and the stage is being set for one still more terrible, due to the same cause. They are making the world a wilderness

when it might be made a garden. The slums, workhouses, prisons, asylums and cemeteries are full of their victims; and the end can only be irretrievable disaster for the whole human race. It is some small consolation to know that they themselves will be buried along with the rest of us in the ruins of the civilisation they have undermined; but one could have wished for a better ending.

Doubtless other civilisations will evolve in the course of ages; but they will all go the same road as this one unless a race of people arises which realises that the purpose of an economic system is not to provide work, but to satisfy human desires; and of a financial system, to make that objective easier of attainment.