

**“CREDIT POWER AND DEMOCRACY,” BY
MAJOR C. H. DOUGLAS, CONSIDERED.**

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Bishop Berkeley had the reputation in his own day of having written a book—*The Principles of Human Knowledge*—which no one could understand. ‘His labours,’ said a contemporary philosopher of some eminence, ‘are of little use on account of their abstruseness.’ Yet Berkeley believed that by means of that book he had ‘done away with the chief causes of error and difficulty in the sciences.’

I am proposing now to attempt some examination of that remarkable book, *Credit Power and Democracy*, written, together with some other works of a kindred nature, by Major C. H. Douglas.

I trust the author will pardon me for attributing to him some points of resemblance to the great Irish thinker and economist. There is with both the same admirable desire to do away with the chief causes of error and difficulty in the sciences; while the futility arising from abstruseness, which was alleged against Berkeley’s work, might well have been the fate of *Credit Power and Democracy* but for the exponents and expositors who have come forward on its behalf.

But in truth there is in the personality of Major Douglas something of heroism and romance. He is the self-determined champion of a new dispensation. He rides into the lists of economic and social controversy, relying alone on his own vigour and equipment; and he flings down his gauntlet to all the knights of orthodoxy, to the high priests of industry who cry for more and more production, and with especial defiance to the hierarchy of Finance. Whatever conclusion we may finally adopt as to the truth of his theory or the validity of his message, we shall allow that the Major engages our respect by his masculine vigour, his confident convictions and his high ideals.

As there may be some members of this Society who have not read *Credit Power and Democracy*, let us take an excerpt to illustrate his method of writing and his handling and appraisal of ideas. "At the outset," the author says, "it is necessary to make the sharpest possible distinction between the original philosophical idea which was the genesis of the Guild movement and which was explored by its progenitors of *The New Age*, and the structure built from political and Trade Union mechanism which has been erected upon it. The vital and probably immortal germ of the Guild idea is its recognition of function in society as well as in the individual; and it is the writer's opinion, at any rate, that no sound society can exist which ignores this conception. But when we come to examine the proposals for incarnating this idea in the structure of the working world it seems impossible to escape the conclusion that it has suffered severely at the hands of some of its converts, and that the path of development these proposals have pursued is a tangent to the firm world in which we live, which is globular. In consequence they have left the solid ground of objective fact and have lost practical efficacy." We would, perhaps, have no claim that the author should write in a style level to the comprehension of ordinary men if he were addressing an association of experts in sociology; but his ostensible object is to convert the working-day world, to show business men, bankers and financiers, directors of industries, members of the House of Commons and of the House of Lords, all sorts and conditions of men, that our existing social organisation is heading straight for perdition; that the catastrophe is almost upon us! Now, if the Major, in his military capacity, had express tidings for a battalion of men who were heading, unawares, straight for an ambush, would he not, I pray you, deliver himself as a man of this world?

Let us now observe Major Douglas in his handling of ideas. The paragraph quoted above will serve our purpose. He speaks of the original philosophical idea which was the genesis of the Guild movement, and tells us that it was explored by its progenitors of *The New Age*. The idea is then disclosed; it is *function in society*. This conception is an essential element in the Douglas scheme, and no doubt the author does well to stress its significance by describing it as a 'vital and probably immortal germ.' But surely he must some time have been aware that this idea did not originate in the genesis of the Guild movement.

Sir Henry Maine, in his classic on *Ancient Law*, gives an account of the Village Community—'known to be of immense antiquity.' . . . 'In whatever direction research has been

pushed into Indian history, general or local, it has always found the community in existence at the farthest point of its progress. It is at once an organised patriarchal society and an assemblage of co-proprietors. The personal relations to each other of the men who compose it are indistinguishably confounded with their proprietary rights. The moral elevation and moral debasement of the individual appear to be confounded with, or postponed to, the merits and offences of the group to which the individual belongs. If the community sins, its guilt is much more than the sum of offences committed by its members; the crime is a corporate act and extends in its consequences to many more persons than have shared in its actual perpetration. It is an organised society, and besides providing for the management of the common fund, it seldom fails to provide, by a complete staff of functionaries for internal government.'

Here we have *function in society* in visible operation and in periods of immense antiquity. We do not, unfortunately, get rid of our difficulty by dating back the Guild movement to some prototype in the remote past because the Major distinctly avers that its progenitors were associated with *The New Age* and probably with Mr. Orage, its well-known editor. Major Douglas is out to reprove and chastise the financial hierarchy for their distortion and suppression of facts. Also, he is honest as the day, and one cannot escape the apprehension that he may suffer under his own lash.

There is, however, much more in this matter than a mere anachronism. *Function in society* is one entire hemisphere of his scheme, as his new theory of credit is the other; the firm world in which we live being, as he reminds us, globular. By *function in society* in its perfected development, our author means that 'industry should serve the individual' and that the individual should not be the servant of industry. What he aims at is the emancipation of the individual from that law of life which, as Mr. Benjamin Kidd tells us,* has been always the same from the beginning—'ceaseless and inevitable struggle and competition, ceaseless and inevitable selection and rejection, ceaseless and inevitable progress.' Major Douglas has the same objective as Marx and Engels of the German school of socialism. It is the true socialism as distinguished from state socialism. 'There is one invariable characteristic,' says Kidd, 'by which true socialism may be always recognised: by having always one definite object in view, up to which all its proposals directly or indirectly lead, this is the final suspension of that personal struggle for existence which has been waged not only

**Social Evolution*, Chap. VIII.

from the beginning of society, but in one form or another from the beginning of life.' Mr. Bellamy, in his *Looking Backward*, has given us a model of the socialist community in working order, viz., 'a community in which children are to become entitled to an equal share of the national wealth in virtue of being born, in which the prices of staples are to grow less year by year, in which there is to be no State legislature and no legislation, in which there are to be no police and no criminal classes, but in which it can be said at last that society rests on its base, and is as little in need of support as the everlasting hills.' The Douglas scheme comprehends all the items of this working model, save that it does not dispense with legislation, which has a part of supreme importance to play in the operation of his *credit power*.

We have now clearly in mind the main objective of Douglas socialism. It is 'the final suspension of that personal struggle for existence which has been waged not only from the beginning of society but in one form or another from the beginning of life.'

No one can review the movements which have taken place among the several classes of society during the past century without observing that the general trend of these movements is to raise the position of the lower classes at the expense of the wealthier classes, as, for instance, by the shortening of the hours of labour. Equality of political rights has been attained, and equality of opportunity is a goal already visible on the horizon. Evolutionary science teaches us that this general tendency is not fortuitous or accidental, but, on the contrary, that it is the outcome of forces as compelling and unchanging as the law of gravitation. 'That man as he exists stands with countless æons of competition behind him, every quality of his mind and body the product of this rivalry with its meaning and allotted place therein, and capable of finding its fullest and fittest employment only in its natural conditions.'

If evolutionary science be correct, then this process of bringing all the people into the rivalry of life will not and cannot result in that suspension of competition and the personal struggle for existence, which is the definite aim of the Douglas scheme. In the words of Kidd we reach this consummation: 'As the movement which is bringing the excluded masses of the people into the competition of life on a footing of equality has continued, its tendency, while humanising the conditions, has unmistakably been to develop in intensity, and to raise in efficiency the rivalry in which, as the first condition of progress, we are all engaged. As the rivalry has become freer and fairer, the stress has become greater and the results more striking.'

It is important to note that it is not merely the rivalry of life which the Douglas scheme aims at eliminating, but *the personal struggle for existence*. Every man, woman and child is to have a share in the national wealth as a birthright. No more shall it be said to any man 'in the sweat of thy brow shall thou eat bread,' for his support by the State is to be absolutely independent of services performed. An innovation of momentous significance is here foreshadowed.

The struggle for existence is the driving power of our civilisation and progress. The most virile and enterprising of the peoples are those among whom the struggle has been keenest.

Let it be granted that Major Douglas could stand, like the strong angel of the *Apocalypse*, with one foot upon the sea and the other upon the earth, and cry with a loud voice as of the sound of a great trumpet: This struggle for existence shall be no longer! What would it profit? What would be the consequence? What driving power would be available to take its place? What alternative is there to ensure the continuation of labour and service in their manifold diversities, and on the vast scale essential for the maintenance of the community at its present standard of living? Major Douglas replies to these questions: "We want so to empower the community that individuals will submit themselves voluntarily to the discipline of the productive process." Also, "in the earlier stages of the new order the desire for remuneration in addition to that provided by their dividends, and in the later stages the necessity to find an outlet for their creative activity would drive such persons to seek fresh fields of usefulness." Here then we have the dynamics of the Douglas socialism. We are given to understand that voluntary labour, coupled with a supposed necessity in every human being to find an outlet for his activity, is to supplant and become the substitute for 'that law of life which has been always the same from the beginning—ceaseless and inevitable struggle and competition, ceaseless and inevitable progress.'

Does Major Douglas seriously believe that his nebulous hypothesis, of a snowflake's permanence, can nullify the law of all the ages and reverse the decree which is indelibly stamped on every living thing that moveth on the face of the earth? Can any man with even a superficial knowledge of his kind seriously believe that the miner would continue to labour at the coal's face in the bowels of the earth; the foundry operative persevere in the scathing atmosphere of molten steel; or the artisan persist in the numbing monotony of thousandfold repetition of mechanic act, under no other compulsion than that

of finding an outlet for his activities, and so do while those of his fellows who preferred amusement and hilarity danced round the maypole in the green and beautiful places of the earth? No; we control the forces of Nature by learning and obeying her laws. Not otherwise, surely, shall we solve the complex problems of man in society. The waters of the Wash confounded the presumption of King Canute. The stars in their courses fought against Sisera.

Turning now to the other side of the Douglas scheme we are met by a recurrence of the obscurity and futility which characterised the author's dealing with questions of political science. We are distracted by his misconceptions of banking and finance and perplexed by his use of technical terms in a sense foreign to their received meaning. Speaking of our existing financial and credit system he says: "From the producing side it is a good system, although it leaves to the banker the decision as to whether the production is desirable production"; also, "the last word on policy (production policy) is with finance, not with administration, and is concerned with the control of credit by banks, and to democratise the control of production we have to democratise the control of credit."

Here he misrepresents the banks as controlling and directing production.

As we all know, the financial process by which all industries are set going is that of borrowing the capital from the public. A prospectus is issued containing all relevant information as prescribed by law, and the individual members of the community are invited to take shares in the enterprise. It is the public who decide whether the proposed production is desirable or otherwise, not the banks. Whether an enterprise be good or bad it is not the business of a bank to provide it with capital. It is, however, the proper and legitimate business of the banks to meet the temporary financial needs of all industries when such needs are in the direct line of business of the industries concerned, provided that security for the required accommodation is available. It is ludicrous to describe bank directors as self-constituted judges of *production*; as determining the question of accommodation by their opinion of the desirability of encouraging or of turning down some particular product. However, give the dog a bad name and you may hang him. The banks are declared to be usurping the control of production and they must be democratised.

What are we to understand by a bank being democratised? Major Douglas anticipates our very natural enquiry and gives us the following description: "The business of a modern and

effective financial system is to issue credit to the *consumer* up to the limit of the productive capacity of the producer, so that either the consumer's real demand is satiated or the producer's capacity is exhausted, which ever happens first—a state of affairs which rapidly results in making everyone rich."

Major Douglas presents himself to us here in the likeness of Browning's *Pied Piper of Hamelin*. We are all *consumers*, and we feel the compelling mesmerism of his weird music. Shall we follow him?

'From street to street he piped advancing,
And step by step they followed dancing,
Until they came to the Weser river,
Where in all plunged and perished for ever.'

Let us take now the term *Credit* which forms part of the title of the book under discussion, and which stands, too, for the basic idea of its theory.

The term has, with Major Douglas, two significations: firstly, *real* credit, which he defines as "a correct estimate of the ability to produce and deliver goods as where and when required. Secondly, *financial* credit, meaning thereby 'a correct estimate of the ability to deliver money as when and where required.'"

Now, in all civilised countries commerce is carried on from day to day by means of borrowed money, *i.e.*, by credit. Banks are manufactories of credit. But I think it is true to say that neither banker nor customer in the old world or the new would recognise the credit of the Douglas scheme as corresponding to his information or experience. It is remarkable, too, that the Douglas definitions ignore altogether the derivative meaning of *credit* which is ethical, relating to conduct and character. And be it said here with all possible emphasis that commerce depends primarily upon moral aptitudes and only secondarily upon mental abilities, and not *vice versa*.

Credit is our theme, let us therefore investigate its nature. Sir Henry Maine puts the idea in classical form in his *Ancient Law*, where he observes that 'the positive duty resulting from the reliance by one man on the word of another is among the slowest conquests of advancing civilisation.' The reliance by one man on the word of another is credit; the positive duty resulting therefrom is debt. Our law binds the two ideas together, and credit becomes a right of action against a person for a sum of money. In the creditor is the right to demand; in the debtor is the duty to pay. On this foundation has been built up the the great industrial organisation in which we live and move to-day.

Under the new determinist theory of ethics 'people's actions, thoughts and morals are purely the outcome of more or less blind forces to which they are subjected, and in regard to which both censure and praise are equally out of place.' 'In the economic sphere,' says a reviewer in *The Times*, 'the classical idea expresses itself in the principle of rewards and punishments; no one is to get anything for nothing, and distribution is conditional on production; whereas the modern or new policy would ignore this alleged dependence of distribution on production, organise the productive system to secure maximum output, and treat the distribution of the product as an independent problem.' The conflict is apparently between moral and non-moral standards. (*Literary Supplement*, 11th September, 1924.)

It may be new to some of us here that both the conception of credit and that of a joint stock bank date back to the golden age of Greece. 'Xenophon,' says the historian Mitford, 'conceived the very remarkable idea of the establishment of a joint stock bank open by subscription to all the Athenian people. As a corollary to this project he proposed to improve the ports of Athens, to form wharves and docks, to erect halls of exchange and warehouses, and to build ships to lend to merchants on hire. The whole Athenian people were to become one great banking company from whose profits every member would derive at least an easy livelihood.' (*History of Greece*, Vol. IV., page 22.)

This golden dream never materialised, and if we ask why, the answer apparently is that credit is essentially a moral principle and can only exist in a morally-constituted community.

Greek intelligence was fully competent to form accurate estimates of ability to produce or to pay; but the moral culture of that people had not attained to the conviction that a man's word should be as good as his bond.

'Dishonesty,' said the late Provost Mahaffy, 'was not an occasional symptom in the worse epochs of Greek history but a feature congenital in the nation and indelible. There was, on the other hand, something in the Roman *gravitas*—an instinct of adherence to bonds and covenants—which Cicero asserted to be foreign to the Greeks and which is the first essential of any sound commercial prosperity.' (*Social Life in Greece*, pp. 124, 420.)

Notwithstanding these grave considerations, Major Douglas has appropriated this cherished term *credit* to his own purposes and with the excellent intention of saving us from ourselves. Let us follow his exposition, which may be stated as follows: (1) The capacity of the country to produce is expanding greatly from year to year owing to improved

organisation, new inventions, and the cumulative effect of new ideas with respect to plant and machinery. This is communal property, and the community have a right to the product. (2) The greater part of the community and the workers who produce the goods are subjected to a low standard of living and deprived of almost all the comforts and pleasures of life. In consequence there is an almost unceasing warfare between Capital and Labour. The remedy hitherto sought for and applied is a rise in wages; this, being inevitably followed by a rise in prices, is of no avail and the strife is renewed. (3) The true remedy lies in the vesting in the community in its corporate capacity; the control of the goods to be manufactured, the control of prices, and the control of credit and finance. (4) So long as prices equal the costs (both of intermediate goods, such as plant, and of ultimate goods, *i.e.*, goods for consumption) the money distributed in wages and dividends can never suffice to buy the goods produced. It has therefore become the policy of Capital at the present time to reduce output and to maintain high prices. (5) One of the components essential to the production and delivery of goods is the existence of an effective demand. (6) Credit must therefore be issued to the consumer up to the limit of the productive capacity of the producer; in other words, 'the number of credit units in the hands of the public shall be that necessary at any moment to buy the whole possible output of society. (7) Credit, convertible into money, is a correct estimate of the capacity of society with its plant, culture, organisation and moral to deliver goods and services desired by individuals. The sum of our annual national production of *Real Credit* vastly exceeds the sum of our annual consumption of *Real Credit*. This *Real Credit* can be made available to the ultimate consumer by fixing the price of goods at the ratio of credit-destruction to credit-production, and it can be made available for the producer by making good to him from the National Treasury the difference between the appointed selling-price and the total cost of production.

It must be borne in mind that the selling-prices are to be in the same proportion below cost as consumption is found to fall below production.

It is not my purpose here to examine these statements *seriatim*, either those which are verifiable or those which are not. If a tower be built upon the sands it will not be necessary to take it down stone by stone to show its futility. It is sufficient to expose the foundation. And if the fundamental proposition in the Douglas Credit theory be found fallacious, the remainder of the structure is negligible.

The essence of the Douglas Credit scheme is the statutory sale of commodities at a fraction of their cost price; then, wages continuing as before, every earning member of the community would have an amplified purchasing power, and therefore a corresponding rise in the standard of living would accrue to the vast majority. This sounds like mid-summer madness, but the Major is not a person of unsound mind. He knows that any industry whose products were sold below cost price would swiftly pass into the limbo of insolvency.

$$\text{Price in the scheme} = \text{Cost} \times \frac{\text{Total Consumption}}{\text{Total Production}}$$

and it is estimated that the ratio of one to four would be well within the mark. Accordingly the price of all goods would be regulated for the time being at one-fourth cost—the “just price.” So far, well; but there follows of necessity the making good to the producing industries of the deficit in their receipts measured by three-fourths of cost.

Now *Real Credit*, we are informed, is a communal creation, “the proper financial representative of which, in its totality, is the National Credit Account of the Treasury. The cost incurred in the production of goods is therefore incurred on account of the national credit, and it represents a debt owed to industry by the community at large.” The scheme provides that the Government shall require from the producing industries periodical accounts, properly kept and audited, of the cost of production, including all dividends and bonuses. On the basis of such statements the Government shall reimburse the producers to the extent of the deficit statutorily incurred “by means of Treasury Notes, such notes being debited as now to the National Credit Account.” And at this point we receive the welcome and well-timed assurance that no inflation of Credit is involved. The reason why is also given, viz.—“since already the credit has been spent.” Alas! for the reason.

This assurance is of the gravest import. That there will be no inflation on a serious scale is the keystone of the Douglas Credit arch.

We do not require in these days to demonstrate the evils of inflation of the currency. We have not to interpret its meaning by the Assignats of French revolutionary finance. We may, perhaps, recall the withering criticism of Webster on the American inflation of his time. ‘We have,’ he said, ‘suffered more from this cause than from every other cause or calamity. It has killed more men, pervaded and corrupted more the choicest interests of our country, and done more injustice than all the arms and artifices of our enemies.’ But every thought-

ful man has already taken to himself with indelible impression the lessons in this matter so amply provided for us on an almost world-wide scale in the current decade of this century.

When, therefore, we are informed by Major Douglas that our own Government is to print Treasury notes to the extent of the value approximately of three-fourths of our national output of commodities we feel how good the assurance is that no inflation can or will result. Also, as this is, beyond all question, the vital point in his system, we cannot doubt that Major Douglas and his collaborators have tested its soundness and genuineness with scientific care and accuracy. Mr. Orage, the editor of *The New Age*, has himself worked out an example of the system in operation which bears the imprimatur of Major Douglas. He takes the case of the coal industry and postulates that the scheme shall apply only to coal sold for domestic use so far as the 'just price' is concerned. Assuming from estimates based on Mr. Giffen's figures that the cost value of domestic coal is £60,000,000 per annum, it follows that the purchasers will pay only one-fourth and that the Treasury will reimburse the colliery companies by Treasury notes or drafts to the extent of £45,000,000, and obviously their accounts are balanced thereby. Now observe that, as Mr. Orage tells us, these colliery companies have been carrying on their business—paying salaries, wages, etc.—by means of borrowings from the banks in anticipation of the receipts due from coal sales. When therefore the Treasury reimbursement arrives it is lodged to credit of the various companies' accounts with the banks, and, clearly, the obligations to the banks are made good. Mr. Orage now appears upon the scene, points dramatically to these facts, and announces with becoming confidence: You see that the accounts of the producers and the banks are now balanced and settled. The advance made by the Treasury had already been spent by means of borrowed money. The credit is now cancelled, there can be no inflation. We crave pardon of Mr. Orage and Major Douglas, but we must dissent.

In order to make clear what really happens let us take the coal case as it is managed at the present time. The cost price of the coal, say £60,000,000, is paid *in toto* by the purchasers. This sum therefore comes off the credit balances of customers of the banks and partly, too, out of the pockets of the people, where as salaries, wages or dividends it had found a temporary home. It is paid over to the colliery companies, who with it repay their borrowings from the banks. Thus the credit created temporarily by the banks to produce the coal is duly cancelled by the proceeds of the sales of the coal. This may be taken as a typical instance of the creation and cancellation of credit

under the existing system, and here it is true to say there is no inflation of the currency.

Now bearing in mind that under the Douglas scheme the sum of £45,000,000 is paid to the colliery companies by the Treasury *in order that the purchasers of the coal shall not pay it*, it must be obvious that when the accounts of both the colliery companies and the banks have been settled there still remains a sum of £45,000,000, partly in the pockets of the people and partly in their credit balances at the banks. In other words, owing to the operation of the Douglas scheme the amount of currency in the country has been increased by £45,000,000, *i.e.*, the currency has been inflated to this extent. The Treasury printing press provides the means of the inflation, and there is no provision and can be no provision whatever under the Douglas scheme for the cancellation of this Treasury credit. This particular instance of inflation, it should be noted, is essentially *recurrent*. There will be annual repetition (subject to possible modifications in the "just price"), and the effect will be *cumulative*.

But in order to do bare justice to the Douglas scheme we must give it its full scope. It is not restricted to coal; its ambit is the total national output.

There was a Census of output for the United Kingdom in 1907, and it was found to approximate quite closely to the estimated National income. Researches covering a wide period have been made in the United States to test the correspondence between output and national income, with the result that their close concurrence has been established.*

Prior to the war the total income of the United Kingdom was estimated to be not less than £2,250 millions, and in 1917 Professor Todd put it at not less than £3,000 millions. (*Mechanism of Exchange*, page 171.) Assuming then, as we are apparently warranted in doing, that the total national output for that year was of like value, we are in a position to apply the Douglas scheme, as it is intended to be applied, to the entire area of our industrial organisation.

The "just price," which requires all commodities to be sold at one-fourth of total cost, provides therefore for a payment of £750 millions by the consuming members of the community, and necessitates a grant-in-aid in the form of Treasury notes and drafts amounting to £2,250 millions.

**The Times Literary Supplement*, 11th September, 1924.

And here it must again be noted that this vast sum is an actual and deliberate augmentation of the currency, impossible of cancellation except by repudiation.

And yet, vast as this sum is, it is only the first instalment in a continuous annual process—a process, be it clearly understood, which is cumulative.

Ordinary arithmetical standards absolutely fail to bring home to our minds the stupendous inflation which is adumbrated by the Douglas scheme. Astronomical parallels will be more helpful; we must think of it in terms of the distances of the fixed stars or of infinity.

The Douglas scheme is an extraordinary hallucination. It is pitted with fallacies and built on misunderstandings. It is driven by its own logic to an ultimate position in which its absurdity becomes manifest. It is a virile though vain attempt 'to give to airy nothing a local habitation and a name.'

Nevertheless, I would like to close this necessarily very incomplete examination of the gallant Major's work with the same tribute with which I commenced it—a tribute of respect for his masculine vigour, his confident convictions and high though impossible ideals; a tribute of admiration for his masterly though complex literary style, his lightning like flashes of insight and his chivalrous demeanour.