C.H. Douglas: Pioneer of Monetary Reform

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C.H. Douglas (1879-1952), a Scottish-born engineer, who worked for a number of American and British companies in the early years of the twentieth century, was the founder of the modern monetary reform movement. My own interest in monetary reform dates from discovering Douglas's ideas through a reprint of A.R. Orage's articles about them in Orage's publication *The New Age* dating from the 1920s.

Douglas pointed out that modern industry can readily produce enough goods to meet the needs of everyone in society, but that the reason we sink further into debt, while at the same time we are driven to produce more and more, is because of the nature of industrial production combined with the monopoly on money-creation held by the banking system.

Douglas elaborated that for various reasons having to do with the process of production over time, there is always a gap in monetary terms between the value of what is manufactured and the purchasing power needed to consume it. Regarding the factors which cause this gap, Douglas wrote as follows in a 1932 pamphlet, *The Old and the New Economics*: "Categorically, there are at least the following five causes of a deficiency of purchasing power as compared with collective prices of goods for sale: 1) Money profits collected from the public (interest is profit on an intangible); 2) Savings; i.e., mere abstention from buying; 3) Investment of savings in new works, which create a new cost without fresh purchasing power; 4) Difference of circuit velocity between cost liquidation and price creation which results in charges being carried over into prices from a previous cost accountancy cycle. Practically all plant charges are of this nature, and all payments for material brought in from a previous wage cycle are of the same nature; 5) Deflation; i.e., sale of securities by banks and recall of loans."

Such factors apply in full to the present state of every developed modern economy, including the U.S. and Canada, which uses bank-created debt as the method to fill the gap between production, as denoted by GDP; i.e., prices, and the available purchasing power to consume it, consisting of income from wages, salaries, and dividends.

This was commented on in a communication to the author from a Canadian expert on Social Credit who wrote: "The present system attempts to 'bridge' this widening disparity by the creation and issue of money as bank loans for consumption and/or for superfluous and increasingly destructive (e.g., war goods) capital production. Debt issued in such a manner does not finally liquidate financial cost but, in an inflationary manner, merely transfers such financial costs as an additional charge to be recovered in the prices generated by future cycles of production." (May 17, 2007)

Douglas went on to propose that the production/consumption gap should be filled by distribution of a cash stipend called a National Dividend, which would actually be the proper share of individuals in the bounty of the nation's economy and resources. I believe that Douglas's ideas merge with those of a basic income guarantee as a measure of economic freedom and justice promoted by many economists and advocates today.

It is said that ideas from the 1930s of achieving full employment by government deficit spending, a policy which can only be achieved fully in a wartime economy, were

invented to counter Douglas's ideas, which fully supported economic democracy and also provided for the elusive "leisure divided" we all know should result from modern technology. Instead, this technology in the hands of finance capitalism, backed by the power of the military imperial police state, increasingly lays waste to the resources of the earth while binding a majority of people to ever-increasing debt slavery, unemployment, and ill health due to stress.

Douglas was the first in modern times to show how technology and economic know-how could serve rather than destroy humanity, without recourse to a totalitarian collectivist society. The Social Credit movement that Douglas founded remains a powerful force in the British Commonwealth but is only starting to be known in the U.S.

While I was writing the recent series of articles on monetary reform for Global Research and other websites, I had the good luck to be contacted by Social Credit proponents from Canada and New Zealand, who provided me with texts from the writings of Douglas and others. The clearest short description of Social Credit by Douglas himself seemed to be in a speech he gave during the depths of the Great Depression at a meeting in 1935 in Oslo, Norway, which was attended by the King of Norway himself.

With all due respect, Douglas was an educated Briton of his day, and like others of the time, seemed to use twice as many words as necessary to make his point. So I have taken the liberty of condensing the speech while retaining Douglas's own words.

Douglas's ideas are as pertinent today as when they were written, with economic and social conditions becoming as bad in the U.S. and the rest of the world as they were in the 1930s, if not worse—except of course for the rich who control the world's resources, money, military, educational institutions, and media.

Douglas focused mainly on the private sector economy. In my opinion, overall reform must also involve the public sector, which is why much of the program I have outlined in my articles has to do with infrastructure funding and public policy. This approach also reflects my experience from having spent a lifetime working for the federal government, whereas Douglas was employed mainly by private companies.

Douglas's ideas have already changed the world by educating several generations of interested people in the British Commonwealth in how we can have a modern economy that still serves democratic ends. Now we need to take a step further in actually implementing his program, along with other reforms.

MONEY AND THE PRICE SYSTEM

By C.H.Douglas

Condensed version of a speech given at Oslo on February 14, 1935, to H. M.

the King of Norway, H.E. the British Minister, and the president and members of the Oslo Merchants Club.

There is…a good deal of discussion in regard to what we shall call the crisis, matters of unemployment, the economic depression, and other names we give to our present state of affairs…[There is also] a great deal of misunderstanding which surrounds the various proposals made,…for dealing with this crisis arises from an unfamiliarity with the…monetary system….

…We hear, or we did hear in the happy days gone by, that, let us say, Mr. Jones was "making money." Mr. Jones was a bootmaker or a brewer, or something of that kind, or a manufacturer of motor cars….[but] there are only three classes of people in the world who make money, in any literal sense of the word. In Great Britain, for example, there is the Master of His Majesty's Mint, who makes metal coinage….There is the gentleman who sets up a little plant of his own and either makes counterfeit coins or writes very delicately executed signatures on pieces of special paper. He "makes" money, but he gets as a reward fifteen years imprisonment. There is the third who…is much less advertised and much more retiring, and that is the banker, and it is he, in the literal sense of the word, who makes over 90 per cent of the actual money that we use.

The method by which the banker makes money is ingenious, and consists very largely of bookkeeping….Every bank loan creates a deposit, the repayment of every bank loan destroys a deposit; the purchase of a security by a bank creates a deposit and the sale of a security by a bank destroys a deposit. There you have…a quite undeniable statement of where money comes from. All but 0.7 of one per cent. (or over 99 per cent), in Great Britain…of the money transactions – without which none of us under modern conditions could exist – are in the form of "bank credit," which is actually manufactured by the banking system and is claimed by the banking system as its own property. That is undeniably because the banking system lends this money (it does not give it), a condition of affairs which will be accepted by anybody as sufficient proof of a claim to ownership.

Over against that, you have the manufacturer of real wealth, by which I mean things which money will buy, clothes, houses, motor cars, the things that go to raise the physical standard of living…. We realize…that the possession of money is a claim upon real wealth: some of us…are still hypnotized into thinking that money is real wealth. I am sure, in an audience of this calibre, it is not necessary to emphasize this: money is not real wealth….

The modern economic production system is not a system of individual production and exchange of production between individuals. It is more and more the synthetic assembly, in a central pool, of wealth consisting of goods and services which are preponderantly due to the use of power, to modern scientific processes, and all sorts of organizations and other constituent contributions of [factors] which will occur to you. The problem is not to exchange the constituent contributions of each one of us to that central pool, because in fact our contribution to that central pool, in the ordinary sense of tangible economic things, is that a small number of persons operating on this machine of industrial "production", can produce all that is required for the use of the population….The problem is to draw from this central pool of wealth by means of what can be visualized as a ticket system. And the modern money system is in fact losing almost daily its aspect of …a medium of exchange, and becoming more and more a ticket system by which people, who are not exchanging their production, can draw from that central pool of wealth….

…When…money was a medium of exchange and…everyone was…employed in a productive system…the price system was what is called self-liquidating…If I make a pair of shoes and charge Kr.10 for them, the amount which you have given for those shoes has…been distributed; it has come to me as an individual, and I am able to spend that Kr.10 on buying ten kroners' worth of things, say five kroners' worth of leather and five kroners' worth of bread. The fact that the system is self-liquidating, that it will go on working more or less indefinitely is self-evident; and this is the assumption of the classical economists….The whole economic and financial system in its present form stands or falls by the contention that the present price system is self-liquidating, that is to say, that no matter what price is charged for an article, there is always sufficient money distributed through the production of that or other articles to buy the article and therefore there is nothing inherent in the system…to prevent the process going on indefinitely.

…This belief is not true…the [present] price system is not self-liquidating. There is…"Poverty amidst Plenty,"…enormous quantities of valuable foodstuffs, production and so forth, for which there is everywhere a great demand and for which there is no purchasing power….The fact that half the factories are semi-employed and that farms are decreasing their production, that in America the supply of cotton on account of so-called over-production is being restricted, would in itself suggest that there is not sufficient purchasing power to buy the goods which are for sale, at the prices at which they are for sale.

…There is…inductive proof which puts this question beyond any discussion whatever and that is the question of rise of debt. It must…be quite obvious to anybody that, if the world as a whole is consistently getting further and further into debt, it is not…paying its way, and if it is not paying its way it is quite obvious that the price system demands of it more purchasing power than is available. The public is paying all it can, and buying what it can of the total production. The failure to pay more is therefore forcing the destruction of some of it and at the same time it is piling up debt, which means that, to be self-liquidating, the purchasing public ought to pay a great deal more than it is in fact paying.

If I as an individual require, let us say, 10,000 kroners' worth of goods per annum, and, while getting that 10,000 kroners' worth of goods per annum, I get into debt to the extent of 10,000 kroner per annum, then it is quite obvious that the real price which I ought to be paying – in order that the system could go on for ever – is Kr.20,000 for what I am getting for Kr.10,000 and borrowing Kr.10,000 to pay in addition. If you are running up a debt continuously you are not paying your way. The real price that you are being asked to pay for the things you use in your daily life is what you do in fact pay, plus what the system says you ought to pay; and what you ought to pay is the debt.

In the year 1694 the Bank of England was formed in Great Britain, and…the system that was unfortunately inaugurated at the time of the founding of the Bank of England has probably more to do with the present crisis than any other single factor. In the 17th. Century…the world debt… increased 47%….By the end of the 18th. century the world debt had increased by 466 per cent., and by the end of the 19th. century the world debt, public and private, had increased by 12,000 per cent….And that is in spite of the numerous repudiations of debt, the writing down of debts which takes place with every bankruptcy, and other methods used to write off debts and start again.

That…is an indisputable proof that the present financial price system is not merely not self-liquidating, but is decreasingly self-liquidating. We also know that in fact, in those times of boom which are referred to by economists as proving that it is self-liquidating, the rate of increase of debt is greater than in times of depression….Even in times of boom, there is no justification for saying that at any time of the trade cycle, the price system is self-liquidating.

…Of course it might be asked why [the banks resist]…the idea that the price system is not self-liquidating?…The first reason is that, if it is true that there is always extant sufficient purchasing power to buy goods, then it must be true that the poor are poor because the rich are rich, and it follows that the correct method of dealing with the present situation is to tax the rich in order that the money be given to the poor….

So far as Great Britain is concerned – taxation is, I think, twice as heavy as that in any other country in the world – more than half of its taxation is in connection with what are called national debts, war loans and things of that kind. If you investigate the facts as to the ownership of these world debts and war loans you will find them held preponderantly by large financial institutions. You have at once a very good business reason for large quantities of taxation if half of it goes to the service of national loans which are held by large financial institutions. That, as an ordinary business proposition, is obvious. It is still more obvious when you consider that these debts were actually created in the first place by financial institutions, by lending of that money to governments, and the receiving in return of large blocks of national securities which the financial institutions receive for nothing….

You [also] have the fact that there is always a deficit of available purchasing power. This deficit has to be met to a greater or less extent, so that the process may go on, and the making up of the deficit by the creation of loans is, or course, the chief business of the banking system. It is the business by which, ultimately, the whole of every country – its industries, its loans, its institutions…must mathematically go into the control of the financial institutions. This is so, since they alone have the possibility of meeting these deficits in purchasing power, which sooner or later must occur in every business relationship.

…You have a system which is operating badly and which under present conditions must continue to operate even more badly. Then…you have an enormous vested interest in possession of the most powerful monopoly that the whole history of the world has ever known – the monopoly of credit. That is, the monopoly of the creation of, and dealing in money – a monopoly against which any other monopoly pales into insignificance – and it is determined to use every weapon to retain this monopoly….

In the modern world it is possible to do without almost any single material thing,…but it is practically impossible for any of us to through twenty-four hours without either money or "credit" which attaches to the belief that we shall have money available sooner or later. The monopoly of the control of the money system is the great over-riding monopoly of the world as it is worked at the present time. And, if you just realize – as you will realize in dealing with this problem – that it is not merely an economic or mathematical side, but is also a side which penetrates into the very highest politics.

…To put it very shortly, the core of the defect in this price and money system under which we operate at the present time is that it cannot, without the help of the banks, liquidate "costs" as they are produced. To put it another way, it is under an inevitable necessity of piling up debt at an increasing rate. The perfectly simple cure for that situation is to create money at the rate at which debt is created. And taking the very simple statement…that every loan creates a deposit, it is quite obvious that, if you create money even at the astronomical rate at which debts are being created, you can apply the money so created to the liquidation of the debt, and both money and the debt will go out of existence at the same time. In that way the process will, as it has not for many hundreds of years past, become a self-liquidating process which can be carried on indefinitely.

….This word inflation is one which is always raised by bankers and those whose interests are with bankers, when any question of modification to the system is raised. It is a kind of bogey-bogey, which unfortunately at once frightens everybody...The first thing to realize is the true meaning of inflation. Inflation is not an increase of purchasing power, it is an increase in the number or amount of money tokens, whether paper or otherwise, accompanied by an increase in price, so that both the money-to-spend side is, in figures, raised and the price side is also, in figures, raised. That is true inflation. It is simply a multiplication of figures without altering the relation between money-to-spend and price, and of course, is a tax on savings.

An increase of money-to-spend is not inflation unless it raises prices. On the other hand, with a given amount of money-to-spend, a given total of money tokens, and a fall in prices there is an increase in purchasing power. You can get an increase of purchasing power by one of two methods. You can either keep prices constant and raise the quantity of money tokens, assuming that is possible to do so, or you can keep the money tokens constant and lower prices; or, of course, you can do both of them at the same time. Now, broadly speaking, what we are aiming at in the Social Credit Movement is, in the first place, simply an increase in purchasing power so that the money system shall become self-liquidating. And, secondly, we are aiming to meet that condition, at which I just hinted at the beginning of my talk, that fewer, and fewer operators are required to tap the machines of industrial production.

....You have to recognize that some of the best brains (scientists and others) have for 180 years or more been endeavouring to put the world out of work – and they have succeeded. Production, industrial production, is in itself a misuse of terms: there is, to be exact, no such thing as production. The law of the conservation of energy and matter prohibits the use of the word production in any exact sense in that connection. What you do is change matter from a form in which it is not useful to human beings into a form in which it is useful, and that transformation always requires power. Until 150 years ago, we provided that power by eating as many meals as we could get and by employing the power of the muscles of our arms. When the first steam engine was made that process became obsolete. The power which is required for this transformation of matter from one form into another is now supplied from the sun more directly and in the form of water power, driving water-turbines, dynamos, motors of workshops, and so on....

In 1921 the American Buick car, with which you are quite familiar in Oslo, I think, took 1,100 man-hours to produce in the Buick works. In 1931, ten years later, a much better car with many great refinements took 90 man-hours to produce....A friend of mine,...an airship builder,...said that if we continue in the same way in Great Britain as we are doing, by 1940 we should have 8,000,000 unemployed. There are said to be 12,000,000 employable people in Great Britain, yet all the goods required could be produced by about 4,000,000 people.

That state of affairs, the result of effort,...is always referred to as an unemployment problem, as if it were a catastrophe! Whether it is a catastrophe or a magnificent achievement depends purely on how we regard it, because so long as people demand of us that we must solve the unemployment problem – while or best brains are, in effect, endeavouring to increase the unemployment problem – it is obvious that we shall get nowhere. From our point of view, the point of view of those who share my views, we say this is a magnificent achievement.

The so-called unemployment problem is really a problem of leisure....The problem really is a problem, first of the distribution of purchasing power to those who are not required, and will decreasingly be required, in the industrial system, and secondly, of ensuring that the total purchasing distributed shall always be enough to pay for the goods and services for sale....

We believe that the most pressing needs of the moment could be met by means of what we call a National Dividend. This would be provided by the creation of new money – by exactly the same methods as are now used by the banking system to create new money – and its distribution as purchasing power to the whole population….this is not collection-by-taxation, because…the very rapid and drastic reduction of taxation is vitally important. The distribution by way of dividends of a certain amount of purchasing power, sufficient at any rate to attain a certain standard of self-respect, of health and of decency, is the first desideratum of the situation.

…The issue of a National Dividend would be a recognition of the fact that, if work is not available, [the worker]…has the right to an income sufficient for self respect and subsistence – as by right and not as a "dole."….It is of course, suggested…that if you did that to any considerable extent without taking further steps, there would be a rise in prices….But we propose that a further issue of credit be made for the purpose of lowering prices….We propose to apply a certain proportion of the total created money to a reduction of prices. The public will thus pay a part of the price out of their own pockets in the ordinary way, and a part of the price will be paid by various means through the creation of national credit. The effect will be a drop in the price level, while at the same time the producer and the business man will not be losing money. They will enjoy the dividends and the increase in trade which comes from the ability to charge lower prices. They will not lose money as they would if they had to lower prices without the aid of the creation of national credit.

In that way we believe that it will be possible at one and the same time to increase purchasing power and to lower prices while preventing anything in the nature of what is called inflation. That covers in principle nearly all that we have to propose….The great difficulty, of course, is that it is extraordinarily hard to bring sufficient pressure to bear upon this world-wide monopoly of credit. …If it can be done I believe that nobody will lose. I am not myself, for instance, an advocate of the nationalization of the banks. I believe this again to be one of those misapprehensions so common in regard to these matters, for nationalization of the banks is merely an administrative change: it does not mean a change in policy, and mere administrative change cannot be expected to produce any result whatever in regard to this matter. A change in monetary policy can be made without interfering with the administration or ownership of a single bank in the world; and if it could be got into the heads of the comparatively few people who control these enormous monetary institutions that would lose nothing but power – and that they will lose that power anyway – the thing would be achieved.

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