

A Short Course in Economic History from the 17th Century to the Present Day

Helen Corke

A New Introduction

“The *Treatise on Money* is rather like a treatise on bicycles which might be written by a brilliant mechanic who knows all about the construction and working of a bicycle, but has forgotten that its primary purpose is to carry a man, and is imperfectly aware of the improvement of the roads since the eighteenth century.” (Eimar O’Duffy in respect of Keynes)

During the 1920s and 1930s economics was studied by ordinary working people anxious to exercise their rights of citizenship in order to create a saner economic system, one which did not lead inexorably to waste and war. These people viewed campaigns asking “them” to meet our “demands” with considerable suspicion, as they merely accord authority to “them”, the faceless bureaucrats, rather than to “us”, the citizen of a free country. In this same spirit, Helen Corke wrote *A Short Course in Economic History*. The target audience was the final two years of schooling, which at that time, in the 1930s, was thirteen to fourteen years. The material remains a useful introduction to the subject for the average person who is unfamiliar with ‘the dismal science’. Hence its present reproduction in electronic form and hard copy.

The technological changes which have occurred since the 17th century are truly astounding. As late as 1815, when the Battle of Waterloo took place, the most sophisticated means of conveying the news of Wellington’s victory was horse-riding couriers and sail-power over the sea. Michael Faraday’s invention of the dynamo did not occur until 1831. Over the following two centuries technology changed from reliance upon the muscle power of men and animals to mechanical power and electric energy for production of food, clothing, shelter, fuels, all the necessities and luxuries of life. Developments in communications technologies brought the telegraph, railways, broadcasting, facilitating and facilitated by revolutionary changes in money and banking.

Through the accident of history, new money enters the system as interest-bearing debt which has to be repaid. There is no necessary reason why this should be so – the money system is, after all, a man-made system. In fact, the downside is that because money is introduced in this way it forces *an increase* in production: since the loan must be repaid, the increased product must be marketed aggressively to recoup the money and repay the loan. In a world awash with goods, a further chunk of money has to be borrowed and spent on advertising and promotion (marketing), which increases the financial, ecological and social costs of the product without increasing its quality. Thus in the case of foodstuffs, for example, flour, meat, dairy produce, fruit and vegetables may be produced locally for local consumption at a minimum of costs, financial and otherwise. Indeed, home ‘processing’ can be an intrinsically satisfying activity if time allows. When the very same products are grown *for money*, preserved, processed, packaged, transported, wholesaled, retailed and waste packaging disposed of, vastly increased costs are incurred, whether measured in terms of time, materials, energy and money. Where costs include design of the product, brand images and the like, the depreciation of resources has again to be subtracted from real values produced. All along the whole line of production the time of wage slaves is wasted, so that they have to buy the products because there is no time left for the pleasure of cooking for friends and family.

If the outdated relationship between the money system and the real-world economy is to change, an understanding of the way the economy developed over recent centuries is a vital prerequisite. For this purpose, Helen Corke has provided a valuable resource which, despite quotation of one or two rather dated examples, stands the test of time.

Frances Hutchinson

FROM SCARCITY TO PLENTY
A SHORT COURSE IN ECONOMIC HISTORY FROM THE XVIIITH CENTURY TO THE PRESENT DAY

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SYNOPSIS OF THE COURSE

I. SEVENTEENTH-CENTURY ECONOMICS

The production and distribution of goods under conditions of physical energy and muscular power, seen from the point of view of:

- (a) THE PRODUCER,
- (b) THE MERCHANT,
- (c) THE BANKER AND INVESTOR,
- (d) THE CONSUMER, AND THEIR EMPLOYEES.

II. EIGHTEENTH-CENTURY ECONOMICS

Changes in the positions of (a), (b), (c), and (d) due to the application of steam power to industry.

III. NINETEENTH-CENTURY ECONOMICS

Developments following upon the application of electric power to industry, extension of world trade, effects of foregoing upon relationships of (a), (b), (c), and (d).

IV. TWENTIETH-CENTURY ECONOMICS

Acceleration of invention and further development of electric power. Acceleration of production, changes modifying the positions of (a), (b), (c) and (d).

(Sections I, II, III, relate more especially to the trend of events in this country. If a short series of, say, fourteen lessons be planned, six may be devoted to historical development, eight to resultant present-day conditions; a similar proportion may be observed in the planning of a longer syllabus.)

INTRODUCTION

We shall define economics as the study of processes concerned in the production and distribution of goods and services required by man. Taught with due appeal to the imagination it is not "the dismal science" but a fascinating study intimately associated with the experience of every pupil, and bearing directly upon the needs of his daily life. History and geography lessons frequently approach the subject, but more generally that side of it which deals with production. When such lessons enter into the business of distribution, they confine themselves to the consideration of transport, and rarely touch upon the working of the financial machinery on which distribution, no less than production, depends. Thus follows the nearly universal public ignorance of the relationship existing between the circulation systems of money and of goods.

We attempt here to outline a brief course which might be incorporated with a syllabus of modern history, and presented either intensively during the last school year, or spread more advisably over the two concluding years.

PRODUCER, DISTRIBUTOR, CONSUMER

Three agents are equally concerned in the business of economic circulation. Each agent can carry out his function fully and satisfactorily only with the full co-operation of the other two.

(We may note here that the consumer's desire for goods and services is the original dynamic force which starts the running of the economic system. Jones wants a bicycle. His desire impels him to the cycle shop. He can have the bicycle if (a) he possesses money equal in value to its price, (b) he can borrow this money from another person, (c) if the salesman will agree to his paying for it by instalments, or at a later date. In any of these cases Jones's desire for the bicycle becomes effective demand; he takes the machine, the salesman orders another, the order is put in hand at the cycle works and accelerates the making of more frames and spare parts, the factory stock of metals, wood, etc., will be replaced—in short, Jones's effective demand for the bicycle sends a tiny ripple of movement through the whole economic system.)

Each section of our study of economics may be profitably shown from the producer's, the distributor's, and the consumer's point of view.

Our concern is with present-day economic conditions—those of our own age of mechanical power. But these conditions have evolved from the past age of muscular power. This age extended from the beginning of human history to within two centuries of the present. The nineteenth century saw the processes of mechanical power production extend from Britain over the whole earth. We are now realising the implications of that fact, and the modifications that as a consequence must take place in the whole structure of civilisation.

ECONOMIC TERMS

In terms of economics it is convenient to divide the people of any given community into the following classes:

CONSUMERS—persons who use or consume any kind of goods, from a penny loaf to a Rolls-Royce car, or any kind of service, from that of the postman to that of the liner's captain. The consumers are clearly the largest class, embracing all other classes.

PRODUCERS—those who bring into being the goods desired by the consumers, using for the purpose either their own labour and capital (see definition below) or the organised labour and capital of others.

MERCHANTS buy goods from producers and sell them to consumers. Middlemen or Factors are agents who arrange to transfer goods from producers to merchants.

EMPLOYEES—persons who sell their time, labour, and skill to the other classes of the community in return for a wage or salary.

BANKERS are manipulators of money. They (a) receive money in trust (deposits) from their customers, (b) invest money in industrial and Government concerns, (c) create credits (which serve the same purpose as money) by selling customers the temporary right to overdraw their accounts (d) buy and sell bills of exchange, etc. (See later section on banking.)

INVESTORS are persons who purchase shares in industrial trading and mining companies, Government concerns, etc.) with a view to receiving an annual dividend (share in the profits); or (in the case of investors who lend money) with a view to receiving a fixed sum annually as interest on the loan. **EXAMPLE:** Mr. Gay buys 100 £1 shares in the Get Rich Quick Gold Mining Company. As this company is known to be making high profits, he has to pay 25s. for each share. In the three successive years after his purchase the company declares dividends of 10 per cent., 12 ½ per cent. and 15 per cent. respectively, and Mr. Gay receives £10, £12 10s., and £15. Mr. Glum buys 100 £1 shares in Senegambia Railways Company. This company has made little profit recently, and Mr. Glum pays only 15s. for each share, buying because a friend persuades him that the company's new manager is a genius who will change everything for the better. In the three succeeding years after Mr. Glum's purchase the company declares dividends of 6 per cent. and 2 ½ per cent., making a loss instead of a profit the third year. Mr. Glum therefore receives only £6 and £2 10s. in three years. Mr. Safety First buys Government Loan Stock at 3 per cent. per annum, which means that he will receive, for every 100 £1 shares, £3 each year as interest.

By capital we mean everything used by the producer in the production of goods or services. A sweep's capital consists of his brushes, sacks, handcart, etc., together with the money he may keep in hand for buying new tools. A steamship company's capital includes its ships, warehouses, offices, and general equipment, also the funds at its disposal for carrying on the business. The capital value of the G.P.O., a national enterprise, includes the value of all post offices, material and equipment, postal transport vehicles, telephone and telegraph apparatus, etc., together with the monetary capital available for maintaining the service.

PART I. SEVENTEENTH-CENTURY ECONOMICS

[*Note that the means of production in the seventeenth century were relatively the same as those of all previously recorded time. Muscular strength and energy, human and animal, was the chief motive power, supplemented only by the irregular agencies of wind and running water. But the scope of distribution had tended to widen from early ages onwards as contact between the races increased, subject only to such set-backs as the breaking-up of the Roman Empire, the dominance of the Ottoman Turks in mid-Europe (fifteenth and sixteenth centuries), etc.*]

THE ENGLISH PRODUCER

(a) AGRICULTURAL. Majority owned or leased medium-sized or small farms, capital included stock, wagons and farming implements, savings. Chief products, corn and wool. Farmer worked with all his family; hired labourers, dairymaids, etc., at annual "hiring-fair." Open fields, strip holdings, wasteful broadcast sowing, animal manure only. Sold corn in local market, or to merchant's factor. Employees local villagers. Act of Settlement, 1662, made it impossible for poor people to move from one parish to another, therefore the villager was practically obliged to accept the local farmers' terms for labour. Wages often paid partly in goods. Farmer's money kept at home in strong-box.

(b) INDUSTRIAL. Textile. Chief industry, woollen yarn and cloth, spun by the women of the farms in Yorkshire and East Anglia, woven by the hand-loom weavers of East Anglia.

Linen woven in Scotland and Ireland. Cotton spinning and weaving discouraged by Government, because it made no work for farmers. Cloth sold in local market town, by piece, or made to merchant's order. Master-weavers employed cottagers' labour for spinning, carding, and weaving. (Appeal of textile workers to Privy Council, 1631, against lowering of wage by master-weavers.) Iron-smelting done with handforges in forest areas where wood-charcoal was easily procurable. Coal—a little mined at Newcastle in shallow pits; shipped to London and sold there as "sea-coal."

THE ENGLISH MERCHANT

Bought in market-place, through factor, or by order placed with master-weaver, etc. If engaged in foreign trade usually belonged to a Regulated Company or a Joint Stock Company. Members of Regulated Companies traded each with his own capital, but submitted to regulate trade according to rules laid down for the common convenience, and contributed to the maintenance of the company's agents abroad. A member of a Joint Stock Company took shares in a common venture, with its risk of loss and hope of gain. (See history of British East India Co.) Other joint stock companies were the Hudson Bay Co. and the less successful African trading companies of 1618 and 1672. Merchant transport risks very great. Bad roads, highway robbers, sea voyages of uncertain duration. Chief export, woollen cloth; imports were mostly "luxury" goods—wines, furs, Indian silks and muslins, spices, coffee.

Payments between merchants at home and abroad were made by means of bills of exchange, as to-day. Merchant A sending a consignment of wool from London to Merchant B in Antwerp would despatch also a bill, worded, approx.:

£100

August 1, 1699.

At six months' date pay to our order the sum of One Hundred Pounds. Value received.

Signed

Merchant B, sending back the bill to Merchant A as accepted, would in six months' time pay £100 (or its value in Dutch florins) to the Antwerp banker with whom Merchant A had an account, having in the meantime received the consignment of wool. As time went on a trade in merchants' bills grew up. If Merchant A did not want to wait six months for his money he might go to a bill merchant or broker and sell his bill at discount price, receiving perhaps £90 for it. Then the broker either sold it again at once for more than £90, or kept it and claimed the £100 from the Antwerp banker when it became due.

THE ENGLISH BANKER

Dutch bankers were paramount during first half of seventeenth century. Banking system in England may be said to date from same time. Charles I seized bullion in Mint; civil war spread general feeling of insecurity through land; people formed habit of depositing their money with London goldsmiths, to be locked in safe. Goldsmiths became wealthy; made loans both to Cromwell and Charles II at high rate of interest. One loan to latter ruler was never repaid, and formed nucleus of our National Debt. Money, in the seventeenth century, meant coin and bullion; but goldsmiths issued a promise to pay, in note form, and such notes, because they bore the name of a highly trusted goldsmith, began to be accepted by merchants, almost as readily as money.

USURY, the lending of money at interest, had been discountenanced by the Church of the Middle Ages. Jews, who grew rich by the practice, and money-lenders generally, were then scorned and despised by the public. But later it became a common business with wealthy merchants, who gave it the guise of respectability it has worn ever since. The goldsmith found it reasonably safe to lend his customers' money as well as his own, since between any two dates a proportion of the clients only would be likely to ask for their money back.

Many people, ignorant of present-day banking practice, think that the modern banker still lends out his customers' deposits in the manner of the seventeenth-century goldsmith—but this is not the case. The modern banker, in terms of current financial jargon "makes loans and advances," but in reality never lends money in existence. "Making a loan" means authorising a customer, who provides security and pays interest for the accommodation, to write cheques to a stated amount. Since these cheques serve the purpose of money, the proceeding constitutes a creation of temporary money, which goes out of existence when the customer repays his "loan."

If events caused public panic there would be "a run on the bank"—as when in 1667 during the Dutch war the Dutch navy sailed up the Thames. "There was such astonishment that everyone went to his goldsmith to recall his moneys, but they were all sent back empty-handed." (Domestic State Papers, 1667).

The Bank of England was founded in 1694 by certain merchants who combined to lend £1,200,000 at 8 per cent. interest—£100,000 per annum—to the English Government, and from it gained a charter giving them the monopoly of Government lending. Using the Government interest (paid out of taxes) as capital, they began to carry on also the ordinary goldsmith's banking business, but lent to customers not coin, but bank-notes, which were promises to pay gold on demand. "The main purpose of banking," said a pamphlet on the Bank, printed in 1697, "is to furnish the kingdom with an imaginary coin to serve the purpose of that which is really so." The bank-notes were accepted by merchants, and passed from hand to hand as money, each holder saying, "I can change this for gold at any time over the counter of the Bank, which gets money out of the taxes every year from the Government."

THE SEVENTEENTH-CENTURY CONSUMER

Many of the necessaries of life reached the consumer directly, without being exchanged for money. Often employees, domestic, agricultural, and industrial, received part wage in the form of produce, goods, or house-room. A farmer's household was practically self-supporting, living on the farm's produce and weaving its own cloth. Village people bartered goods and services, using money infrequently. Money was only used generally by the country landowners who rented their land to farmers, the merchants, professional classes, and the townspeople in London and the ports. No crowded industrial towns existed in the seventeenth century. Food, being all home-grown, lacked the present-day variety; clothing was durable in kind and worn for long periods, serving several persons before being finally discarded. Scarcity of production and difficulty of distribution made thrift on the part of consumers desirable, and this was preached as a great virtue.

ECONOMIC IDEAS CURRENT IN THE SEVENTEENTH CENTURY

1. GOLD AS OF SUPREME VALUE. Money is anything which by common consent of a community is used as a measure of value of commodities and services, and as a means of assisting their exchange. Substances used as Money commonly have little or no intrinsic value. A loaf of bread is intrinsically of more value than a gold coin, because the former will sustain life; the latter is merely a symbol to its holder of the goods or services for which he may exchanging it. But gold, on account of its durability, relative indestructability and scarcity, has been long regarded by Western civilisations as the supreme measure of value. Its scarcity has also given to it the fictitious value people are apt to attach to rare things.

As long as the production of the necessaries of life—food, clothing, and shelter—was limited in quantity by the man and animal energy available for such production there was abundance for the few, poverty for the many, and a general sense of insecurity. People therefore desired to command not only immediate necessities, but future ones. Assuming that gold could be exchanged at any time for goods or services, they valued gold as an earnest of security. Out of this valuation of gold arose the idea known as:

2. THE BALANCE OF TRADE. The term refers to the import and export trade carried on between Britain and other nations. "If our merchants sell more goods to neighbouring nations than they buy from them," thought the seventeenth-century economists and politicians, "the country must be getting rich, because more gold is being paid to

us than we are paying to other nations.” So when this was the case they said that “the balance of trade was favourable.” To keep this “favourable balance” the Government in 1673 promised to pay to merchants a bounty of 5s. a quarter on all wheat exported, while more than three times as much duty had to be paid to the Government by the merchant who wanted to import foreign wheat. Taxes or excise duties were also placed on wines, silks, and foreign goods generally. The result of this policy was that:

- (a) Merchants, farmers, and landlords acquired gold.
- (b) Employees had plenty of work, but no higher wages.
- (c) Consumers generally within the country had to pay more for wheat and bread.

Few people realised that the nation was actually sending abroad the food it might have consumed with benefit, and receiving a commodity, gold, which had no intrinsic value, and could only be used in exchange for a future harvest or a future supply of cloth or other goods.

3. WORK FOR ALL ESSENTIAL. While the production of goods and services depended solely on the physical labour of men and animals, such work was bound to be deemed necessary and essential by the whole community. To work was a moral obligation, to idle was a sin—a kind of theft—since the idler could only live by consuming the product of another’s labour. Hence European languages abound in proverbs glorifying work.

PART II. EIGHTEENTH-CENTURY ECONOMICS

The second half of the eighteenth century saw a new force, superior to that of human and animal muscular energy, introduced into the field of Production. We note now the changes worked in the economic world by the application of Steam Power to industry.

THE EFFECT UPON THE PRODUCER

The capitalist (capital-owning producer employing workers at a wage) had existed as early as the fifteenth century. But then his organisation did not increase the amount of product—a hand-loom per worker in a “factory” produced relatively the same length of cloth per day as a hand-loom per worker in a cottage. Nor were costs of production much diminished by “factory” conditions; the cottage weaver employing his family’s labour and inheriting his loom and local trade could still compete in the market and make profit enough to live upon. But the application of steam power to spindle, loom, hammer, and many another tool gave to the capitalist producer a great opportunity and advantage. The steam-driven loom, etc., brought about:

- (a) The opportunity of producing a greatly increased amount of cloth, etc.
- (b) The need for extended markets, i.e., for more consumers ready to buy.
- (c) Given (b), the producer’s chance of increasing his total profits while lowering his selling price per bale.

(The cottage weavers and hand-producers generally were ultimately ruined because, not being able to increase their output, they could not reduce their prices without starving their families. When consumers found that machine-woven cloth was as good, and cheaper than that woven on hand-looms, they ceased to buy from the hand-weavers.

Craftsmen who had saved, or could borrow money, began to buy steam-driven looms and employ workers; these founded the capitalist firms of the early nineteenth century.)

- (d) The grouping of factories in the neighbourhood of coal and iron mines, and abundant water supply.

The greatly increased demand for coal and iron, and the possibility of sinking deeper pits (due to Watt’s invention of an effective steam pump) benefited landowners whose acres yielded these minerals. Mineowners became more wealthy than those holders of rich agricultural land, the old aristocracy.

EFFECT ON MERCHANT

Increase of trade, especially foreign trade; new imports of iron and raw cotton, new exports of textiles. Larger ships built.

EFFECT ON BANKER AND INVESTOR

Increase of trade meant greater demand for money and bigger sums deposited at banks. Producers and merchants wanting to build or extend factories, etc., needed loans from bankers and private investors. Old-established country merchants with a Bank of England account started banking for their friends and customers; by 1793 there were 400 such country banks; some issued their own bank-notes, which passed as money locally. In London all merchants freely used Bank of England notes, accepting them in payment for goods, assuming that upon demand at the Bank any number of notes would be exchangeable for gold. At outbreak of war with France in 1793, a run on Bank, which

could not meet demand for gold, having lent it to Government to pay subsidies, etc., abroad. Situation met by Pitt's creation of Exchequer Bills, which were accepted as having the backing of the Treasury, and therefore assured their holders of payment out of eventual taxes. 1797 Government passed Bank Restriction Act as an emergency measure, legalising Bank of England notes and suspending cash payments.

This action of Pitt's, it should be noted, gave to the Bank of England the solidarity of a national institution. Any other banking firm might be dishonoured and discredited if in time of panic it could not pay in gold the demands of its depositors. But the nation's credit was pledged to the Bank of England.

Bank-notes, used as money, had come to stay. And cheques introduced a supplementary form of paper money. (The bank-note is the banker's promise to pay; the cheque is the depositor's instruction to his banker to pay money to a person named. But when A accepts a cheque from B in payment of B's account, he usually takes the cheque to his own banker, who credits its amount to A's deposit account, and sends it to a Clearing House. "A Clearing House is a place where the cheques drawn on the several banks and paid in to other banks are set off against one another, and the net balances due are determined." (Waters). Alternatively B's cheque may be used to pay an account owing from A to C, if C agrees to accept it, which is probable, given B is a person of good business repute. In that case the cheque would be handed to C's banker, who would credit it to C's banking account.

EFFECT ON EMPLOYEE

The coming of steam power, by cutting out the independent hand-producer, greatly increased the number of persons working under direction and for a wage. The grouping of factories in areas adjacent to coal, iron, and water tended to bring thousands of workers to those areas. In the rows of cottages built by producers, to house factory hands, and in the bigger dwellings of the producers and managers, we see the beginning of the huge industrial cities of to-day. Nothing hindered the capitalist manufacturers from working their employees the longest possible hours at the lowest possible wage, nor from employing child labour. Nothing prevented the herding of employees in badly built, ill-ventilated hovels, nor were any precautions taken to safeguard their health. The results were: (a) A lowered standard of living, health, and morals. (b) An increase of population.

EFFECT AS TO CONSUMER

For those consumers who possessed purchasing power the steam-driven machine provided a greater variety of goods than were formerly obtainable. But while, in England, between 1750 and 1800 the population rose from 5 ½ to 9 millions, the number of persons whose incomes were sufficient to ensure them the necessaries of life increased but slowly.

ECONOMIC IDEAS OF THE EIGHTEENTH CENTURY

The widespread popular feeling against old loyalties and institutions which culminated in the events of the French Revolution was expressed by writers of the time in terms of admiration for the natural and the individual in action. The economist, Adam Smith, (1723-90) wrote *The Wealth of Nations*, a book in which he maintained that the community would be best served if the individual initiative of the producer were left unhampered by state interference or control. Open competition between individuals and free trade between nations, said Smith, would result in general progress to prosperity. His views exactly suited the new class of capitalist producers and financiers, who built up trade and increased profits by a system of free competition which kept their employees in a state of economic slavery.

PART III. NINETEENTH-CENTURY ECONOMICS

War interferes with the normal processes of production and distribution. The individual having money can no longer purchase what he pleases; his demand is effective in a smaller degree; he is subordinated to the will of the State. The State has a single desire—to win the war—and production and distribution have to be readjusted to meet the desire of the State, as it is expressed by the individuals who govern it. Production slows down because producers and employees are withdrawn from work for purposes of warfare, and because supplies of raw material can no longer be freely imported. On the other hand, the consumption of goods, owing to the destruction of war, goes on more rapidly: every week of war further depletes the nation's real wealth.

Britain was at war almost continuously from 1793 to 1815.

We may note the following developments.

1. To provide for the army, British Government borrowed from Bank of England, between 1793 and 1797, some £10,000,000, and also received money in loans from Bank's customers, making a total of about £37,000,000. Much of this was in gold, and was sent abroad to pay subsidies to allies, etc. Then, since the Treasury had no gold and the Bank of England very little left, the Bank Restriction Act was passed, requiring all the Bank's customers to accept bank-notes instead of gold if they wished to withdraw their deposits, and permitting the Bank of England Company to print and issue notes as required.

These notes passed into circulation as money. The position was therefore this:

(a) The depositors' gold had been lent to the Government, which had sent it abroad.

(b) The interest on the loan, raised by taxation, would be paid each year to the Bank of England Company until (if ever) the loan were repaid.

(c) The Bank of England gave paper notes to the depositors in place of their gold, and these, though of no intrinsic value, were accepted. The Bank's issue of notes constituted a creation of Money.

2. By 1810 the notes issued by the Bank of England and the country banks had a nominal value of more than £50,000,000. But goods, especially foodstuffs, were reduced in quantity by the war; they were in great demand, and prices rose, as they are bound to do if a community's supply of money is increased without there being a corresponding increase in the supply of goods.

A general rise in prices is equivalent to a fall in the value of the pound. An increase of money tokens, whether notes or coin, which brings about this result, is called inflation.

3. Conditions at the end of the war, in 1815, showed:

Producers in search of foreign trade, the home market being small.

Bankers and investors ready to advance money to speed up production and to restore the waste of war in Europe.

Employees working as wage-slaves, their purchasing power being insufficient to buy them adequate food, clothing, or shelter.

Consumers, divided into two classes—a small class with purchasing power to supply its needs, a large class with little or no purchasing power.

PURCHASING POWER AND SURPLUS MONEY

A point that has much bearing upon the economic developments of our own time should be noted here. Each consumer wishes to buy all such goods and services as he considers sufficient for his own needs, the quantity and variety of the goods differing with the status and capacity of the individual. But there is a limit to each consumer's need. No one will buy more food than his household can normally eat, or order motor-cars by the dozen when two will serve every purpose.

During the nineteenth century Production steadily increased, Profits increased, Money (both paper and coin) increased in quantity. A number of consumers acquired incomes in excess of their spending power. This money they lent or invested. They refrained from buying goods they might have used, in order to bank or invest their money, seeking thereby to gain in the future by interest or dividend. Usury became the whole basis of production and trade. Consumption lagged behind production—that is to say, goods were manufactured at a greater rate than they could be sold. Hence there was wastage on one side and want on the other. And although during the course of the nineteenth century wages tended to rise, the additional purchasing power so provided was still insufficient to buy the goods produced.

THE SEARCH FOR FOREIGN MARKETS

Early nineteenth-century manufacturers realised that the population of this country could not buy nearly enough goods to keep their machines running. But there was effective demand in other European countries and in Asia and America, where steam power was relatively unknown. The Congress of Vienna had given the States of Europe back their petty kings, who were not averse to spending taxpayers' money; and the discontent and revolutionary spirit of the people delayed industrial progress. Indian princes were known to have much gold, the Chinese dignitary could pay in silver. The British commercial traveller successfully roamed the world. British foreign policy was shaped to one end—the extension of foreign trade. Between 1830 and 1875 British exports increased in value from less than £50,000,000 to £250,000,000; imports from £50,000,000 to £360,000,000. There was also a great increase in shipping and other services rendered to foreign nations—these are called invisible exports. Lastly it should be remembered that the banker's agent went forth with the commercial traveller; branches of British banks were established abroad; the Egyptian prince who wanted uniforms for his army, the Indian Raj who desired a telegraph installation, could borrow from British investors the money to pay for them if he would offer good security and a high rate of interest. The British consumers whose incomes were in excess of their spending power, and those refraining from buying goods at home in order to invest their money were paying British producers to send their goods abroad. Yet at home millions of consumers, lacking purchasing power, were unsupplied with the necessaries of life.

Britain, during the second third of the nineteenth century, was “the workshop of the world.” But after 1850 many other competing “workshops” opened. Steam power, and later, electric power, were installed throughout Europe, also in the United States. Banking companies on the British model financed the new industries. Huge industrial towns with increasing populations grew both in Europe and America, and in time the condition we have marked in the case of English industry appeared similarly in that of all these other industrialised nations. Owing to their lack of purchasing power the larger proportion of consumers could not buy the goods they required, and producers turned to find a foreign market.

By the end of the nineteenth century foreign markets were difficult both to find and to keep. The British commercial traveller and banker’s agent, arriving early for an audience with the Raj, might find American, French, German, and Italian travellers and agents already in the waiting-room. This position was reflected in the speeches of the statesmen of the several nations, whose governments chiefly represented the producers and bankers. Trade jealousy increased as competition grew keener. The struggle for foreign markets was the basic cause of the World War.

ECONOMIC IDEAS OF THE NINETEENTH CENTURY

David Ricardo (1772-1823), in his book *Principles of Political Economy and Taxation*, supported the laissez-faire recommendations of Adam Smith. He also insisted that the normal value of any commodity is determined by the amount of human labour employed in its production; and thought that wages would always tend to fall to the minimum sum on which the workman could live. So often were the theories of Smith and Ricardo repeated, so much were their works read and admired, that people began to accept their conclusions as fixed economic laws, operative through all time, whereas the theories were actually only true in reference to the economic conditions known, and but partially understood, by the economists in their own limited period.

People of the nineteenth century did not regard consumption as the object of production, but profits. They imagined wealth to be, not goods and services, but money. And while the general application of mechanical power throughout the world was increasing the supply of Real Wealth year by year, and the Age of Scarcity was gradually passing away, giving place to the Age of Plenty, public opinion remained bound by the old, accepted, but no longer valid economic ideas of the seventeenth and eighteenth centuries.

PART IV TWENTIETH-CENTURY ECONOMICS

The World War ended in 1918 because the material resources of Austria and Germany were exhausted for the time being, and neither supplies nor credit could be obtained from abroad. The real wealth of France, Britain, and their allies (with the exception of U.S.A.) was also seriously depleted. In Britain prices were high, goods scarce, and the National Debt stood at £7,481,000,000. It had risen to that figure from the 1914 level of £707,000,000. This means that goods and services consumed by the fighting forces during the war had been paid for by the Government to the value of £6,775,000,000, all borrowed money, on which interest was due yearly as long as the loans remained unpaid. The interest would be raised by taxation taking the form of duty on consumable goods (thereby raising prices) and levy on incomes (thereby reducing purchasing power). In this manner generations unborn may be required to pay for a war fought by their ancestors.

We should clearly understand that only a small proportion of this £6,775,000,000 was gold. Some of it was paper money, but more what is called bank credit, which is nothing tangible at all. At the war’s beginning, the Government anticipated that there might be a run on the banks, as in 1793, and took measures to prevent it. A moratorium was declared, postponing for three months the payment of debts. The Bank Charter Act of 1844, which had limited the issue of Bank of England notes, was suspended, and the Currency and Bank Notes Act (1914) legalising the Government to issue its own notes was passed. All subjects were invited, and later required, to exchange the gold coins in their possession for notes; the gold was kept in reserve at the Bank of England for the payment of foreign creditors. The Government issued bills to the face value of £90,000,000. By common consent paper money was accepted, and there has been no gold currency in Britain since.

THE PROVISION OF MONEY FOR THE WAR

War operations consumed goods and services to the value first of £1,000,000, later of £3,000,000 per day, totalling, as we have seen, £6,775,000,000 of borrowed money. The borrowing was done in two ways:

1. By **BANK OF ENGLAND ADVANCES**. The British Government is regarded as a depositor at the Bank of England just as a private merchant or other individual is a depositor at the Midland Bank in virtue of the money he leaves with it. The amount that he has deposited becomes the bank’s liability to him. Should the merchant need a temporary loan, he asks the banker for an advance, pledging as security his stock, or something of accepted value, The banker,

granting a loan of, say, £5,000 at 41 per cent. per annum—or at whatever is the Bank Rate for the time being—makes an entry of £5,000 in the merchant's deposit-account book. Thereafter the merchant can write cheques to the amount of this additional £5,000, which will serve him as money. The loan is for a stated time; at the end of the period the merchant must repay it either in cash or by depositing cheques handed to him by his customers in payment for their goods. Similarly the Bank of England Company, granting advances to the Government, writes the theoretical value of the advance as an entry in its books under Public Deposits, and the Chancellor of the Exchequer can then in effect use the nation's cheque-book. In both cases money is created for the time being; when the advance is repaid the amount lapses or goes out of being. In the meantime the cheques drawn have assisted the production and exchange of goods and services.

2. By FLOATING PUBLIC LOANS. To "float" a loan is to invite the public to lend money for special use at stated interest, the loan being returnable in a given time. The first Government war loan, floated in 1914, was redeemable 1925-28, and 3 ½ per cent. interest was offered. Loan certificates were printed bearing a face value of £100; persons subscribing bought these for £95. Thereafter the loan certificates could be bought or sold at fluctuating price in the money market, rather like violins or art treasures. But a great many of the first and second War Loan certificates were not sold to the public, but taken by the banking companies, who made advances upon them in the manner described. Points to remember are that (a) a great quantity of money was "created" during the war, and (b) that most of it came into circulation as a debt due to the banks, the interest being charged to the nation and payable through future taxes. At the same time production of goods (except war supplies) was slackening, and imports had decreased. The increase of money in circulation therefore constituted a state of inflation; prices of goods rose. Yet because of the purchasing power provided by the Government in the form of war-time allowances to the wives and families of men in the fighting forces and owing also to the high wages paid to women munition makers, working-class consumers were better provided for than in pre-war days.

THE MARCH OF INVENTION AND ITS SEQUEL

Since Michael Faraday invented the dynamo the application of electric power to industry has steadily progressed. We must now trace the wide-spreading effect of this on post-war economic conditions.

Year by year ever more powerful and effective machines have superseded earlier ones in all branches of production. Year by year scientific discoveries have increased and made more easily obtainable the raw materials of the earth, both vegetable and mineral. The real wealth of man—his goods and opportunities—are enormously greater now than at any previous time in history. The rate of production has tremendously accelerated, and is progressively accelerating. The age of muscular power is past; we are now within an age of mechanical power and electric energy.

HOW THIS AFFECTS THE PRODUCER

We have noted the competition for foreign markets among the producers and merchants of the great industrial nations which led up to the World War. In 1914 it ceased for the period of the war, the consumption and destruction of goods being at that time in excess of their production. There followed several years of reconstruction and replenishing of stocks. Under the provisions of the Treaty of Versailles, German producers were required to replace the Allied shipping destroyed during the war, to deliver coal to France, livestock to Belgium, etc. But soon French, British, and even American producers objected to the German goods entering their countries; more goods on the home market means falling prices unless balanced by an increase of purchasing power, and purchasing power had decreased since 1918, because:

- (a) the creation of bank credit for Government advances had stopped,
- (b) maintenance allowances for soldiers' families were no longer paid, teachers' and civil servants' pay was reduced,
- (c) income tax and other duties were heavy,
- (d) people with money were tending to save rather than to spend.

From 1922 onward producers have sought to reduce the costs of manufacture and agriculture by use of labour-saving electric machinery. But the installation of the machines is a heavy expense, covered generally by banker's advance or the issue of new shares. In either case the machines are bought with borrowed money, and until this is repaid the interest on the loan must be added to the cost of the goods and charged in the prices to the public. The producer therefore reduces his bill for wages and increases the amount of interest he must pay to the banker or investor. He is enabled to speed up production, improve the quality and increase the quantity of his goods. But in order to keep his machines running, he must sell to merchants at prices that will, in the aggregate, cover (a) costs of manufacture, including depreciation (wear and tear of machinery, etc.), (b) interest on and part repayment of loans, (c) profit. And he must sell quickly, or the machines pile up stacks of unsaleable goods—quite useful goods, but slightly out of date. Machines, too, get out of date, and the producer is not infrequently obliged to scrap serviceable ones which a recent invention has superseded.

“In 1903 the General Electric Co., U.S.A., built for the Insull interests in Chicago a Curtis turbine. In September, 1909, this turbine, in perfect working order, was withdrawn, and to-day is once more in the possession of the General Electric Co., and exhibited as a relic of a bygone age. That obsolete turbine is still being paid for in interest on the bonds sold to buy it.” (*The A,B,C, of Technocracy*, Arkwright (Hamilton)

The producer of the early nineteenth century was an individual capitalist who managed or personally supervised his own works. Few such producers exist to-day; the large capital required for a modern enterprise is generally subscribed for by a group of financiers who employ a specialist manager or entrepreneur as organiser. Another form of business organisation is the joint stock company, with its board of management and shareholders, the latter being investors who have nothing to do with the working of the concern, but draw, half-yearly, a dividend of the profits made, in proportion to the number of shares held. The share certificates or bonds of all the producing and trading companies, like Government bonds, are bought and sold in the money market (British, Stock Exchange; American, Wall Street, etc.), their prices rising and falling in accordance with the good or bad prospects of the companies concerned. The natural and mechanical resources of the producer of to-day are enormous. Science has placed in his hands the means of providing amply for the needs of the whole population of the world. But he is hampered by two considerations: the merchant can only buy a decreasing proportion of his goods, because the effective demand of the world's markets tends always to lessen; and his own indebtedness to the bankers increases. So farmers limit their acreage, seeking to produce less, and industrialists run their factories at short time, and reduce to a minimum the number of their employees.

THE MODERN MERCHANT must speed up his business so that his sales keep pace with production. He seeks to buy in the cheapest market and sell in the dearest. The producer's extremity is often the merchant's opportunity. Yet, though he offers his goods at the lowest possible price (and obviously the price must cover the costs of his business and afford a minimum profit), he frequently finds that the effective demand of customers is not large enough to maintain his trade. In Britain during 1933 the number of business firms that became bankrupt was 4,606, while in U.S.A. the total reached 20,307. But in trade, as in production, the individual has been replaced by the financiers' group and the joint stock company, with agents at home and abroad, who watch the course of production for bargains; who bid for the harvest before it is sown, and contract for the wool of sheep yet unborn. A third development is that of the Co-operative Societies, associations of consumers who buy goods at shops organised by controlling committees, the profits on sales being divided annually among the members in proportion to the amount of their purchases. The Co-operative Wholesale Society is a company whose shareholders are the retail co-operative societies, and these elect its directors. The C.W.S. is producer as well as merchant, owning factories both at home and abroad, and also carrying on banking business.

THE MODERN BANKER AND INVESTOR.

Electric energy having increased so enormously the production of real wealth (goods and services), there has been reason for a corresponding increase of money (the tokens used to assist the exchange and distribution of real wealth). The Bank of England Company holds (Bank Act, 1844) the monopoly of the issue of money, as far as this country is concerned. It issues new money in one way only—by making advances to the Government or to the other banks. Therefore all new money comes into being in the form of debt, on which interest must be paid. This is one of the chief reasons for the present shortage of purchasing power. For an advance which is merely a book-entry resulting in the making of cheque-money only functions as money until it is returned to the bank by the borrower; its return automatically cancels it. An advance made in new bank-notes or gold is a more permanent creation of money, but this is rare. In 1924 the amount of cheque-money used in Britain was estimated at £377,000,000,000., while the amount of coin in use was only £150,000,000. No gold coins have been issued since 1915.

Of the country banks, a large number failed during the nineteenth century; of the rest the majority amalgamated to form what are now known as the Big Five; they work to a single system, co-ordinated with the Bank of England. A large part of their business is exchange banking—the adjustment of payments among producers, merchants, and investors in terms of the various foreign currency values.

THE GOLD STANDARD. Previous to 1915 it was publicly assumed that bank-notes on presentation at a bank in this country would be exchangeable for gold coins; and this was the case unless the demand were abnormal, as in time of panic. Theoretically the Bank of England held gold in its vaults to the value of its note issues, less what was called the fiduciary note issue, which was backed by securities. This “gold standard,” i.e., parity between the value of notes and gold, disappeared, as we have seen, at the outbreak of the World War. The law requiring the Bank of England to exchange notes for gold coin remained on the Statute Book till 1925, when it was repealed, and the Gold Standard Act passed, providing only that the Bank should sell on demand, for export, bullion bars (400 oz. at £3 17s. 10 ½d. per

oz.). We finally “came off the gold standard” when the foreign demand for gold, due to the trade depression and general feeling of insecurity, had seriously depleted the Bank’s store of bullion (1931).

THE MODERN EMPLOYEE. Every mechanical invention, from Watts’s steam pump onwards, has tended to lessen the need for human labour. But since the application of electric power to industry, the displacement of men by machines has very greatly accelerated.

A Marion electric shovel will remove as much earth in twenty-four hours as 15,000 labourers could in a ten-hour day. The Aston process for wrought iron produces an 8,000 lb. iron ball every five minutes, whereas two men formerly took an hour and a half to make a 600 lb. ball. Such instances could be quoted by the score. The result has been the expulsion of employees from industry throughout the industrial world. The International Labour Office estimated, in 1933, that 30,000,000 persons, formerly wage-earners belonging to statistic-keeping industrial nations, were then unemployed. The machines are superseding all classes of workers—manual labourers, factory hands, domestic servants, artisans, clerks, and organisers of all grades of skill.

Assuming for each of these persons two dependent or partly dependent relatives (a low estimate) this signifies a world population of 90,000,000 on or below the poverty-line, not merely short of money but practically without it and with no means of obtaining it. Herein lies the chief reason for the farmer’s unsaleable wheat, meat and cotton, and the glut of food and useful commodities in the markets. Since the publication of this International Labour Office report the official total of the unemployed has been partially and temporarily reduced by two expedients: (a) public works schemes inaugurated by the American, German and British governments—all financed by further government borrowing, (b) the renewal of the competition in armaments. There has also been a British revival of the “luxury” trades, motor-cars, etc., consequent upon some recovery of public confidence from the effects of the financial panic of 1931-2.

In previous centuries muscular and mechanical human labour was essential to the life of the community. It is no longer essential. In the early nineteenth century the increase of production depended upon the utilisation of the whole strength of millions of workers. It now depends almost wholly upon electric energy applied to complex machinery. The supervision of the machines requires the work of relatively few persons. It has been estimated that such labour, divided out among the employees available, need occupy no more than three to four hours per day of the workers’ time. Leisure would seem to be within the possibility of all. Yet employers, hampered by debt and in fierce competition for a market wherein purchasing power continues to shrink, are unable to adjust themselves to the new position. Instead of employing full staffs for short-time service, they save wages by reducing staffs to the minimum, and employed workers within the factory do “overtime” while hundreds of unemployed are without the gates.

THE MODERN CONSUMER. Shops and warehouses to-day are stacked with goods for sale. The elevators of Canada and the U.S.A. were full to overflowing of surplus wheat, and further stocks were being burned, until by international agreement wheat cultivation was limited. Producers deliberately destroy huge supplies of useful food and raw material which cannot be sold at a profit. Food, clothing, tools, toys, etc., grown or made in New Zealand or Japan reach by rapid transport the remotest villages in Britain, and there are offered at a cheap price. In spite of this abundance, millions of consumers are still lacking the necessaries of life, and the majority are unable to buy according to their desire. They are short of money. There remain the minority of consumers whose money supply exceeds their purchasing power, and who must needs invest their surplus; invested money helps to produce more goods which cannot be sold.

REVIEW OF THE POSITION TO-DAY

THE PRODUCER, in order to pay his debts and interest and make a profit, introduces labour-saving machinery and discharges wage-earners in the attempt to reduce his costs and increase his production. He is bound to sell more in the future to meet the interest on his new loans (raised for the machines). In the majority of cases he is obliged to borrow fresh sums on the security of his business to payoff old loans. If his business returns are declining bankers will refuse him advances, and he will then become bankrupt. He wants rising prices and more buyers. But his very increase of the supply of goods makes prices fall, while he decreases purchasing power by the discharge of employees.

THE CONSUMER (in great majority) wants goods and services he cannot obtain. The world’s real wealth is being wasted instead of being used. Effective demand is shrinking, and will continue to shrink as long as the economic ideas current in the seventeenth and eighteenth centuries are applied to twentieth century conditions.

Here, then, is an economic position impossible to maintain, and impossible to change or adjust by the rules of the Age of Scarcity economists. It becomes now our urgent task to study the new conditions, and to face the facts of the present time unhampered by ideas only relevant to the past stress of poverty from which we have emerged. Many of the axioms of the Age of Scarcity are now not merely obsolete, but dangerous, standing as formidable obstacles in the way of public progress. We should not allow a seventeenth-century milestone to remain in the middle of a new by-pass motor road; with this thought in our minds let us review the points of economic philosophy we noted previously.

GOLD AS OF SUPREME VALUE. The tremendous increase in quantity and exchange value of world products; the demand for their rapid distribution; the relatively small quantity of gold available—these considerations make it highly inconvenient that gold shall be retained as the basic medium of exchange. Its use as coin was discontinued at the beginning of the world war. The Gold Standard Act (1925) rescinded the former legal obligation of the Bank of England Company to exchange its notes for gold, and in 1931 it was found necessary to repeal the clause of that Act which required the Bank to sell bullion bars on demand. Gold is now kept in bulk in the vaults of the Bank to serve as the (theoretical) backing of the bank-note issue—theoretical because a large part of the notes in circulation are issued against securities and not against gold. Lord Melchett, in his book *Modern Money* says: “Gold is the only commodity that matters of which there is a shortage. It is, from the practical point of view, the most useless of all commodities. Yet we are such lunatics that we allow this one shortage to deprive us of the benefits of plenty in all the remaining prime commodities.”

THE BALANCE OF TRADE. The old idea, dating from the seventeenth century, expressed the balance of trade as “favourable” when the nation was exporting (in exchange for gold) more goods than were being imported. The net result of a “favourable balance” was that real wealth (goods and services) really needed at home went abroad, in return for gold which could not be consumed, but only saved up for future purchases. This indicated a form of national thrift justifiable when real wealth was limited and its future supply precarious. At present it is not only unjustifiable but foolish. Our problem is not how to save, but how to use to the best advantage the vast abundance of real wealth ensured to us by science and the world-wide use of electric energy. The command of the twentieth century economic genius is “Distribute or destroy!”

WORK FOR ALL NO LONGER ESSENTIAL. Human labour bears every year less relation to this abundance of goods. Work for all in the fields of agricultural and industrial production is not merely unnecessary; it cannot be guaranteed. Machines of tremendous power and marvellous capacity, displacing employees by scores—even by hundreds—require only a few men to tend them. They place the possibility of economic freedom and leisure within the reach of millions of wage-slaves.

THE ECONOMIC IDEAS OF THE TWENTIETH CENTURY

Of present-day writers on economics the work of C. H. DOUGLAS stands paramount for a clear analysis of the position. In his books *Economic Democracy* and *Social Credit* he shows how the present working of the industrial system accumulates a glut of goods because of the progressively decreasing purchasing power of the nation. Following upon his analysis come three proposals: they indicate the move Douglas’s mind has made from the economic philosophies of the Age of Scarcity.

The proposals are:

1. That the creation and issue of Money should cease to be a Bankers’ Monopoly, and that the sole right in both functions should revert to the Crown. That all administrative powers in relation to these functions should be vested in a National Credit Office, working as a properly constituted Government Department.
2. That the value of the nation’s Money (cash in circulation and credit issues) be adjusted periodically and automatically to the value of the Real Wealth produced within, and imported into the country.
3. That all New Money (at present only issued as Bank Loans, i.e., interest-bearing debt due for return to the bankers) should be placed at the service of the whole community through two channels:
 - (a) The National Dividend, payable periodically and in equal shares to every citizen without respect of age, sex or other source of income, as his or her inalienable right.
 - (b) The Discount ensuring the Just Price. This to be determined as follows:

The National Credit Office to compute (quarterly or half-yearly) from returns provided by the Board of Trade, the total value of the nation’s Production and Imports, and also the total value of all goods sold for consumption or use, during the preceding period. (At the present, as we have seen, Production is greatly in excess of Consumption, owing to the general lack of Purchasing-power.) Douglas maintains that the total value of Production should bear the same ratio to that of Consumption as total Costs do to total Prices. In other words, Purchasing Power in the hands of the community

should equal the price value of the goods for sale, so that the latter shall be always distributed. If it may be assumed, for example, that the total value of the nation's Production and Imports for a given period is £600,000,000, and its total Sales for Consumption are £400,000,000, then, it is apparent that one-third of the goods available for use can not be distributed, presumably because the public lacks Money to the amount of £200,000,000. It will then be the duty of the National Credit Office to create £200,000,000 for the purpose of establishing over the next given period the principle and practice of the Compensated Price. A discount of one-third having been publicly declared, all purchasers would be enabled to buy goods at two-thirds of their price value, the balance being made up either (a) to the customer if he pay full price and afterwards present his receipted bills for discount at his bank, or (b) to the retailer if he sell at discount price and present his sales statement to the National Credit Office.

By means such as these, poverty and privation should now be banished as bubonic plague has been eliminated from this country. The same policy would reduce the chances of war between nations to a minimum—for the prime cause of modern warfare is the fear and irritation engendered by economic necessity, by shortage and want. When effective demand is operative in each home land, its producers will no longer need to maintain a fiercely competitive struggle for foreign markets. The competition of the future will be for excellence of quality, the factor which will determine individual demand, and therefore the volume of producers' sales.

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