

CHAPTER VII

The Capital Levy—What it means—
Who would pay it—The immunity of the
price-maker.

CHAPTER VII

ANOTHER of the cliches to which the official Labour organisations have committed themselves is that which goes by the name of the Capital Levy, in its various forms. It is so superficially familiar to everyone interested in these matters that no extended description of it is necessary; with variations it may be described as a graduated and ostensibly non-recurring tax on the money-value of individual property, real and personal, such value being estimated, not by its earning power, but on some basis such as market price or expert estimation.

At first sight such a levy is an attractive expedient to a party concerned with the flagrant disparity in worldly circumstances to which "Capitalism" has at the moment brought us. If we can believe that there is a fixed amount of wealth in the world, and we see, as we do, that some have

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the good things of life while many have hardly the necessaries, it would appear an easy path to greater "justice" to take some of the "wealth" off the fortunate ones, even though you do not directly give it to the remainder. Let us examine the project more closely, therefore.

The law recognises two main classes of capital: "real"—*i.e.*, land, houses, etc.; and "personal"—*i.e.*, stocks and shares, cash, etc., which latter are ultimately claims to some sort of "real" property. That is to say, ultimately all property of any kind or description is a claim on realty. Now, imagine all money values above, say, £5,000 held by individuals to be subjected to a capital levy. What actually happens? The levy, remember, is *on* individuals *by* the "State." The State has no concrete use for realty; it does not, broadly speaking, administer productive undertakings; consequently what it requires is a transfer of credit which it can apply, say, to the reduction of the National Debt, which in itself is an agency for distributing purchasing-power.

Now, however steeply you graduate a

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tax it must leave some men "richer" than others. Remembering this, consider the course of events when the tax is collected. The owner of land has to sell to "raise" the money for the tax. *Who buys that land?* Similarly, the owner of stocks and money parts with these. Who gets them? There are two answers.

If the titles to the land or shares are thrown on the market together there will be a slump in "values" which will affect not only those who are taxed but those who are not taxed, in so far as they have any possessions other than money. At first sight this seems a desirable result, but on further consideration it will be seen that as the National Debt is a money-debt, not a "realty" debt, such a slump in values *increases the real weight of the debt*, because it requires a larger transfer of property at the lower price to liquidate a unit quantity of it. Since, as we have agreed, this transfer of actual property cannot be to the State *in propria persona*, it must be from persons with less money to persons with more money; and the greater the fall in values, the greater would be this

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transfer of real wealth from the less rich to the more rich. That is one possible answer.

But there is a modification of this process possible. In order to avoid the fall in values that the liquidation of large blocks of securities would entail, the banks would be besieged for overdrafts with which to meet the calls of the levy. Which class of applicants would receive preference in this scramble for credit-issue? Undoubtedly those whose prospect of repayment seemed to rest on the surest foundation; and, unless the previous arguments have failed of their purpose, it will be plain that *whatever costs may be incurred by a producer who controls a market can be recouped by him in prices from the consumer*. Consequently, the banks would extend credit most readily to those whose power of price-making gave assurance of their ability to collect the levy, in so far as it affected them, from the public, together with the bank's interest on the loan. Such persons would not only not have to part with any property, but would probably be found in a position of commanding advantage from which to acquire

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the property thrown on the market by their less fortunate neighbours—a result which, though differing slightly in method, results in the same conclusion as in the previous case: that instead of such a levy being a transfer from the rich to the poor, it becomes a transfer from the consumer to the price-maker and the credit-issuer.

This is another way of stating the theorem on which stress has previously been laid in these pages. Under the existing economic arrangements, industry cannot be carried on unless the price of an article includes all the costs—*i.e.*, dispensations of purchasing-power—which have been incurred during its production. If a cost is not included in the price, then the price-maker becomes poorer, and eventually goes out of business. *You cannot tax a capitalist-producer effectively, because his existence as a producer depends on his ability to pass on any expense incurred to the consumer.* And it will be admitted by any unprejudiced observer that no excessive reluctance to avail himself of this privilege is noticeable in the behaviour of the average entrepreneur.

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It is, however, possible to attack the Capital Levy on more general grounds also, if it be realised that the situation with which we are faced is only accentuated by and not fundamentally due to the destruction of war. If the economic system under which we are working is a sound system, then it is a flagrant “injustice” that such persons as do well out of it should be penalised; and if it is unsound, as it is, then the Labour Party, which clearly regards itself as the sole political concessionaire of justice, should be too high-minded to believe that an unjust system is improved by working it unjustly.

The capitalist system is tottering to its fall, but, like the Bolshevik Government, which (according to official communiques) began to totter at its birth, and has continued to totter until it has infected half the world with its congenital instability, it may carry on for a long while, if its opponents obligingly demonstrate at short intervals their inability to supplant it by something better.

CHAPTER VIII

National Guilds—Their genesis—Their corruption by Fabian thought—The use and abuse of Committees—The prerogatives of policy—The diminishing importance of "Labour"—Its lost opportunity—The site of the final struggle.

CHAPTER VIII

SINCE neither Nationalisation nor the Capital Levy offers any sound basis on which to construct a policy for the betterment of society, it may be well to see what may be said of proposals which have attracted very considerable attention from some of the best brains of the Labour Movement—those involved in what are commonly known as National Guilds.

At the outset 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 superstructure 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

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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.

For instance, while a comprehensive Trade Union or Guild is clearly indicated as a possible or even probable evolution from the Trust, it is far more likely, and even desirable, that it will be based on the cartel system than on, for instance, the Triple Alliance of Miners, Railwaymen, and Transport Workers.

Once again let it be repeated, the primary objective of the industrial system is goods, not employment. Once let it be arranged that the distribution of goods is not the "reward" of employment, and there is some chance that the scientific intellects of the industrial world will achieve the end

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to which all their efforts are bent—the replacement of human labour by energy drawn directly from the source of all terrestrial energy, the sun—an end thwarted not only by the insane profit-hunting of the super-productionist, but equally by the sabotage and indiscipline of the syndicalist.

The idea that the direction of the technical processes of a modern co-operative productive organisation can be carried on by a show of hands at a committee meeting of producers, or, alternatively, that appointments to the productive hierarchy should be made in this way, is pure delusion.

Committees have their uses, and advisory committees in industry will become more **and more general**, and are of inestimable **value to executive officials**, but it is of the **very essence** of the best modern organisation that responsibility and authority should go together and be definitely attached to some individual holding a specified office **with specified duties** for the execution of **which**, and for no other reason, he holds **that office**; the essence of which duty in **most cases** consists of making quick decisions

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on matters of fact. Anyone with experience of *executive* (not advisory) committees knows quite well that the decisions obtained from such a source, besides being relatively slow, are really the decisions of one man, generally possessed of political instinct in excess, and quite happy to share possible censure with half a dozen accessories before the fact; and it is far better to accept this as a fact, and to recognise it, than to pretend that there is something inherently bad about human nature which requires continual "policing."

Similarly, the appointment of individuals to executive positions, and their removals therefrom, is essentially a necessary prerogative of the originators of *policy*, not the administrators of process. The control of policy, as we have already seen, resides quite definitely with the controllers of credit, whether that credit is based on finance or a machine-gun; credit never resides in the *function* of labour, either "by hand or brain," though it may reside in the control of labour. That is to say, to the extent that the withdrawal or employment of labour can stimulate either fear or desire,

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to that extent the control of labour is a basis of credit; and as the machine progressively replaces the man in its importance as a purveyor of goods and services, so will the demand of the community on the one hand, or the control of the machine on the other, become progressively more important as bases of credit and origins of policy.

A consideration of the foregoing arguments will no doubt be sufficient to indicate the source of the error into which much of the Guild Socialist movement has fallen: it has omitted entirely, in its proposals for the realisation of a sound ideal, to allow for the most important factor in modern civilisation—the unearned increment of association—and has in consequence left its benefits to be the sport of the financier, while agitating for a revolution which is stamped in advance with all the characteristics of a mediaeval tyranny.

During the years 1914-1919 the British Labour Party as a whole had an opportunity such as rarely occurs in history, so to change the trend of progress, both economic and political, that in a few years civilisation might have emerged from the nightmare

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of war into the placid sunlight of a liberated, creative, and revived world. The great mass of honest, capable men and women, over the backs of whom its leaders had climbed to power, were inspired by a great enthusiasm towards a better age for all; and the immense urgency of the demand for output, which the sabotage of war had created, gave to organised Labour a bargaining power which only a similar or greater war, involving, with its appalling miseries, fresh fields of production, can restore. But the opportunity was missed—missed by the technical misdirection of the Trade Union officials and their Parliamentary spokesmen, who, while voicing the aspirations of their constituents, were perhaps more concerned with politics as a career than with definite constructive action towards the practical improvement of society as a whole. As distinct from the pure Utopianist, determined to see nothing good in material changes unpreceded by a “change of heart,” the “sane Labour leader” naturally listened to any plan designed to consolidate and buttress official power, hence the vogue of Socialist-Admin-

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istrative schemes, now happily and rapidly waning. But the error went deeper. The Syndicalist idea of control by the workers naturally led to strikes for higher wages, rather than for lower prices. The revolt of the general public, while misdirected, was logical and inevitable; and the Labour Movement, as distinct from the aspirations of the great mass of individuals it misrepresents, is partly manœuvred by its opponents and partly committed by the ineptitude of its "leaders" to the representation of an interest as purely sectional, and hardly less truly antisocial, than that involved in an organisation to keep up the price of, say, bread or houses.

If there is one thing more certain in this respect than any other it is that men who know how to do things will not submit to be ruled *in the details of the doing of them* by men who do not know how, and, strange as it may seem at first sight, the control of *society* by the "producers" means just exactly that amongst other things. For instance, it is highly probable at this time that the production of armaments, in the broad sense of the word, is a determining

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factor in world politics; and that is so because millions of men and women get their living, as the phrase goes, by working in armament factories. That is to say, the producer controls the consumer. If those millions of human beings were not dependent for the means of consumption on this particular form of production, it is highly probable that the armament business would languish, and numbers of people who understand what it is the world needs much more than armaments would have an opportunity of suggesting how to get it as well as a voice in determining a suitable personnel to that end.

Now, in spite of the apparent lack of enthusiasm with which any attempt to examine the subject of credit and price control is apt to be received in the immediate present, there is no doubt whatever that its paramount importance will, within a very short time, be recognised, although perhaps not so quickly by British Labour as elsewhere. *The real struggle is going to take place, not as to the necessity of these controls, but as to whether they shall be in the hands of the producer or the consumer.*

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British artisans have become so obsessed with a sense of the power of organised Labour—a power which, always exaggerated, is waning rapidly by misuse—that they are in real danger of playing straight into the hands of the enemy by exactly the same methods which have led the Russian workmen out from the partial, because inefficient, tyranny of Czarist Russia into the scientific conscription of labour now incorporated into the Workers' Republic, which is credibly reported to have converted to Bolshevism Mr. Henry Ford in America and numbers of our most distinguished industrialists in this country.

Unselfish aspirations, good intentions, beautiful phrases—none of these by themselves will affect the issue by so much as one hair's breadth. If the public of this or any other country is really desirous of once and for ever freeing itself from the power of the economic machine, and using the immense heritage which science and industry have placed at its disposal, it has to throw up and place in positions of executive authority men who are technicians in so broad a sense that they understand that

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the very essence of perfect technology is to devise mechanism to meet the requirements, the policy of those who appointed them. There are thousands of such men in every country disgusted, in their varying degree, with the policy to which their abilities have been prostituted; but so long as the super-producer appoints and supports the man who delivers the goods—*i.e.*, profits—while the public elects and supports the man who only talks, whether in Parliament or in the Trade Union, just so long will the tail of production wag the consuming dog. There is no hope whatever in the hustings; but a modified credit-system could transform the world in five years.

CHAPTER IX

Summary of analysis of the Machine Age—Trust Capitalism essentially anti-public—And anti-democratic—The nature of the coming State.

CHAPTER IX

THE conclusions to be derived from a consideration of the conditions observed to exist in the modern economic and industrial systems may therefore be tabulated somewhat after this fashion:

(1) The outstanding feature of the Machine Age is the increment of production obtainable through co-operation and the employment of real capital.

(2) The link which enables numbers of individuals to co-operate is Credit based on Capital—that is to say, a belief that, by making, with the aid of tools, certain articles which the maker does not himself want, he will obtain more easily and more exactly his desires in respect of goods and services which he *does* want, than by applying himself to their production directly. At the present time the real

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basis of credit is broader than ever before, but the psychological basis is failing, owing to the misuse of capital.

(3) The material of which this link is fashioned we call money, which, whatever form it may take, derives its value solely from the belief, the "credit," that it is an effective agent for the realisation of the proposition contained in (2).

(4) The mobilisation and issue of this money, for *productive* purposes, rests primarily with the banks, which are not concerned directly with the maintenance of this co-operative relation, but rather with the rapidity with which the credit units so mobilised and issued are restored to the financial system. This is not the fault of the banks, but of the public and of the system.

(5) From (4) it follows that, where money is the inducement, the control of the *policy* of production—that is to say, the decision both as to what articles shall be produced and their quantity and quality—rest, not with

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the *administration* of productive enterprises, *but as to its initiation with the banks and others who finance their production, and as to its continuance with the price-makers*—whose motive is in the very nature of things anti-public, since it aims at depriving, with the maximum rapidity, the individuals who comprise the public of the independence conferred upon them by the possession of purchasing-power.

(6) The public, as individuals, can only acquire control of the policy of the economic and industrial system by acquiring control of credit-issue and price-making. The organ of credit-issue is the bank, and the meaning of price-making is credit-withdrawal.

Now, there are probably very few serious, reasonably unbiased, and qualified students of these questions who would, after full consideration, be prepared to deny any of the foregoing propositions, but many such find it difficult to understand and agree with the contention advanced in the foregoing pages and in the previous volume

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(“Economic Democracy,” Chapter IX *et seq.*) that an essential postulate of a better state of things—*i.e.*, public control of economic policy through public control of credit—is that ultimate-commodity prices should be less than costs; that an article used by an individual should be sold for less than the money it costs to produce. To anyone in this difficulty the following question may be helpful: *If credit controls the policy of production, how can it be possible for the public to control credit and policy if all the credit necessary to induce production is restored to the banks from the public through the automatic agency of uncontrolled prices?*

It is, of course, possible to control the *initiation* of any specified form of production by controlling credit-issue only, but, once started, there is nothing whatever to prevent an obsolete article from being produced and forced, by advertisement and monopoly, on a misguided public, long after a better, cheaper, and generally superior article is available, so long as the credit necessary to induce production—in common terms, the cost of production—is taken from the

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public automatically through the agency of prices. If, however, the entrepreneur, while subject to all the desirable features of free competition between establishments, involved by effective cost-keeping, is obliged, in order to compete at all, to come to some publicly controlled credit-bank at short intervals for the means to make up the difference between a price regulated (not fixed) by a fractional multiplier applied to all costs of production of articles sold to the individuals composing the public (as explained in Chapter X, "Economic Democracy"), then, and it seems probable only then, do we acquire a valid, flexible, active control, not only of the initiation, but of the development and modification of production, by the public acting in their interest as individuals.

It will be understood that these considerations do not affect the validity or otherwise of the basis on which it is contended that this fractional multiplier should rest—that has already been dealt with at some length; it is merely intended to show here that, without some such arrangement which places the co-operative producer in

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the power of the consumer, instead of the exactly opposite condition which now obtains, effective democracy is pure moonshine, and all progress is stultified. Any practical business man will know of cases—probably of dozens of cases—where processes and discoveries of immense value have been wilfully stifled because it did not suit producers to modify their product. There are ugly rumours about at this moment of certain enormously valuable petrol substitutes cornered and quietly shelved by the oil interests—by no means the worst of the Trusts which enslave us. From every quarter come more or less authenticated stories of calculated waste and abortage—Eastern-returned travellers gossiping of mountains of rotting blankets lining the Suez Canal, Australians of the millions of bushels of rat-eaten and mouldering wheat cumbering their stores.

We do not acquire, by these suggested methods, control by the public, as such, of the processes of production—the "how" it shall be done. That is not the business of the public, as such, but of experts. But by controlling *both* credit-issue and

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price-making the public acquires control of policy with all its attributes—the effective appointment and removal of personnel, amongst others. *The essential nature of a satisfactory modern co-operative State may be broadly expressed as consisting of a functionally aristocratic hierarchy of producers accredited by, and serving, a democracy of consumers.* The business of producers is to produce; to take orders, not to give them; and the business of the public, as consumers, is not only to give orders, but to see that they are obeyed as to results, and to remove unsuitable or wilfully recalcitrant persons from the aristocracy of production to the democracy of consumption.

No peace will ever settle on the distracted earth until this matter has been fought to a finish, and it rests with the intelligence of those who are from time to time in a position to guide popular movements, whether a mere remnant of civilisation will achieve the Golden Age awaiting the settlement, or whether a decisive verdict is close at hand.

CHAPTER X

The production of Real Credit—Delusive accounting—The limits of Financial Credit-issue—Present economic system based on currency—Coming system will be based on Real Credit—The fraudulent standard—Delivery is part of credit-basis—The fallacy of “National Poverty”—Increased effective demand necessary.

CHAPTER X

THERE is another and somewhat more specious objection raised to the statement that the just price of an article for individual consumption is less than the cost price by the ratio of consumption-credit to production-credit; and that is a statement that production only very slightly exceeds consumption.

It will be realised that this is a very specious statement, if we accept it for the moment as being true, and consider exactly what is implied. When a Blue book, or other mine of statistical and generally perverted information, asserts that the imports and exports of a country are thus and such, it intends to convey the impression that the aggregate price-values, as shown on bills of lading, reach the figures given. That is to say, the "balance of trade" of any country, either as reflected in its exchange or by any other *commercial*

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test, is simply a matter of sales-management—you have only to make grand-pianos a necessary of life, corner grand-pianos, restrict the sale, and, presto! half a dozen grand-pianos will balance the import of all the wheat and wool that Australia and the Argentine can send us.

Exactly the same thing is true of values produced and consumed. The community, while producing, as one of its functions, both capital goods and ultimate products or consumption goods, only consumes, as a collection of individuals, the latter. But individuals in the aggregate must pay both for capital production and ultimate products, whether consumed or not, under the present financial system, for the very simple reason that they *are* paid for, and there is no one else to pay for them. Also, as we know quite well that practically every business firm "turns over" the money employed in its business at least once, and generally several times a year, and that each complete aggregate "turn-over" means, broadly, that all costs incurred have been recovered from the public, we either have to believe that not only are the whole of the

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ultimate products covered by the period of turnover, consumed in that time, but also the whole of the machinery, buildings, small tools, etc., which is plainly ridiculous. It is, of course, obvious, after a little consideration, that what happens is that the consumption-values—*i.e.*, prices *retrieved from* the consumer—contain all costs—*i.e.*, credit *issued to* the consumer in the form of wages and salaries; and therefore *must* financially approximate to the money value of production.

Now, because "production" is at present the chief agency through which is circulated the purchasing-power necessary for distribution, there is an immensely strong incentive to sabotage—the waste of work on the side both of the Capitalist and of Labour—and for this reason the consumption of the world is most unquestionably far higher than it ought to be. But even taking this into consideration, it must be obvious that the *credit-value of production—the amount by which the work of a community during a given period of time increases the correct estimate of the capacity of that community, with its plant, culture, and labour, to*

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deliver goods and services—is enormously in advance of the actual consumption. Every single telephone instrument installed, every improvement in transport, every new process for producing nitratie fertilisers, only to indicate the principle by a few trivial examples, clearly increases this real credit at compound interest.

Financial credit, even now, is issued roughly against all forms of real credit. *The only sane limit to the issue of credit for use as purchasing-power is the limit imposed by ability to deliver the goods for which it forms an effective demand, providing that the community agrees to their manufacture.*

Consequently, if as the result of six months' work the capacity to deliver goods and services has been increased per unit of time, it would appear to be simply common sense, with the foregoing proviso, to distribute the means which make it possible to draw on this potential production, without forced export.

When the Capitalist system takes back from the public the whole of the costs incurred in production, it takes back the whole of the financial credit, and the

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purchasing-power covering the period of activity in respect of which that credit was distributed, whereas the *real* credit of that period includes the overwhelmingly important unearned increment of association during that period. To take the most elementary of examples: if we consider a factory, engaged only on one article, during the second six months of its first year of existence, it will probably increase its output very considerably beyond that possible in the first six months.

If, however, of the financial credit, or purchasing-power, which we distribute during the first six months we only take back in prices that portion represented by the ratio of actual consumption to potential production, we can, *if we so desire*, produce up to the limit of our capacity during the second six months in the assurance that an effective demand awaits us.

It is vitally necessary to be clear as to the difference between what actually takes place under an economic system based, essentially, on currency, and the position which would result from the modification to the financial system which we are dis-

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cussing; which would be based, essentially, on the economic capacity of society to achieve its desires. Where metallic gold is the ultimate basis of value, and therefore the ultimate currency, and all credit-issues are made on the assumed necessity of some theoretical or empirical relationship between the amount of gold in the banks and the total credit-issues, and we assume that there is an average period over which credits operate, and that credits are the means of financing production, then total credits, multiplied by average time, are a measure of the *rate* of production. It has been pointed out by Mr. Arthur Kitson, and others, that since this credit structure is based on gold, which bears no conceivable relation in quantity to any human requirement for goods and services, gold production exercises a totally disproportionate effect on the mechanism of prices and credit. But the difficulty goes much deeper than that. Not only does the gold basis of the present financial system shift, but the ratio of the credits erected on it also shifts—sometimes violently. This is, of course, due to the vital fact that *the public even under a gold*

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*basis of credit could utterly destroy the whole credit structure by demanding gold in payment of their cheques on the banks,** because the basis of present cash credits is that they are convertible into currency on demand, and there is, of course, not a tithe of the gold necessary to cash them. Engineered, no doubt, to a large extent by the enemies of this country, that is what nearly happened in August, 1914 (and would always happen under similar conditions), with the result that in order to defeat the manœuvre, the financial system was shifted from a gold to a paper credit basis in a few weeks' time, never, let us hope, to return to so fertile a source of misery.

But, although the gold basis has gone, the simulacrum of it still lingers in the shape of a credit system based on an unregulated paper currency, with the result that a sort of Druid's dance of credit-issue, rising prices, currency stringency, currency issue, more credit based on more currency, goes on, the only possible redeeming feature

*Note to 3rd Edition: The Bank Notes and Currency Act 1928 has made it impossible to obtain gold on demand, while maintaining the fiction that gold is the basis of credit.

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of which is to take the whole cycle right away from the fetish of gold. Apart from this one point, everyone suffers except those whose business it is, in the most literal sense of the words, to make money. So much for the conditions brought about by a financial system which attempts to base its *credits* on the *currency*, and yet allows its prices to rise with both. The alternative shifts the credit basis still farther.

We have already seen that the only possible basis of *real* credit is a belief, amounting to knowledge, in the correctness of the credit-estimate of a society, with all its resources, to deliver goods and services at a certain rate. If we make this basis our *financial* basis, then the credit-structure erected on it can only be destroyed by social suicide—by the refusal of the community to function. Now, one of the components of the capacity of a society to *deliver* goods and services is *the existence of an effective demand* for those goods and services. It is not the very slightest use, under existing conditions, that there are thousands of most excellent houses vacant

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in this country, when the cost of living in them totally exceeds the effective financial demands of the individuals who would like to live in them. The houses are there, and the people are there, but the delivery does not take place. *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 producers' capacity is exhausted, whichever happens first.*

This can obviously be done by making issues of purchasing-power to cover the whole estimated productive capacity, and taking it back to the extent that this capacity is diminished from any cause whatever, a state of affairs which rapidly results in making everyone "rich" in the current sense of the term; which it should be clearly borne in mind, does not at all mean that an individual's real consumption is large—very often quite the contrary—but that the individual in question has the mechanism at hand by which to obtain what he does want.

It is, of course, generally argued that

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there is not enough wealth to go round, and all sorts of absurd and misleading statistics have been evolved to prove that if all the accumulated wealth of the nation were evenly divided up, the average wealth per head would only amount to a very small sum, say £50. The right understanding of exactly where this fallacy arises is probably one of the shortest cuts to an understanding of the whole position, which involves a recognition of the difference between *claims* on capital, and *administrative ownership* of capital.

Financial wealth can only be placed on a solid basis by selling something to the public—it is, for instance, no use owning a factory only suitable for the manufacture of high-explosive shells if the public taste for high-explosive shells has completely departed.

But further than that, even if the public wants nothing but high-explosive shells in the largest quantities (which, from the behaviour of its "representatives," seems highly probable), it would be necessary that an effective demand—that is to say, a demand backed by "money"—should be

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forthcoming from the public. Now, *the value of our hypothetical shell factory would vary from zero when there is no effective demand to infinity when there is no demand for anything else, and no other means of supply.* That is to say, to drop the metaphor, the capital value of the plant of civilisation is as much dependent for its value on the existence of an effective demand for its product as it is on its capacity to meet that demand. If this is grasped, it will be clear that the distribution of the *credit-capital*, the power to draw on the resources of *real capital* (the leverage of civilisation on the work of society) increases the value of capital by the ratio which the new output bears to the old output, a proposition which clearly has nothing to do with the administration of the plant itself. The only way, therefore, to get that increased production of the things which individuals really want, which as here defined everyone may agree is desirable, is to get increased effective demand, which, as we have seen, we do not get under the present financial and price system by any general increase in manufacturing.

CHAPTER XI

Fitness the qualification for executive authority—The producers not the owners of the product—Solar energy the great producer—The method of policy-control—The Producers' Bank—Its operation—The consumer-interest in it—The community-component of credit—How it would operate in the coal industry—The "Idle Rich."

CHAPTER XI

WE may sum up the foregoing arguments by saying, firstly, that the only claim which any individual or collection of individuals has to *operate* and administer the plant of society is that they are the fittest persons available for the purpose. This can only be the case where there is natural attraction between a man and his work, because no man or woman ever excelled at any pursuit for which they entertained a dislike when in competition with numbers of persons who added to equal capacity an affinity for their occupation. Secondly, that as the operators, though vital to the result, are only one of the factors contributing to the result and by no means the most difficult factor to replace, they are not, as operators, concerned with either what is produced, who produces it, or who gets it when it is produced: that is the business of those who provide the reason, the inducement to

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produce—the individuals who collectively compose society.

The absolutely fundamental reason for the existence of modern co-operative collective production is the belief of individuals that their interest is best so served. When or if that belief fails, as it is failing now, either it must be restored or collective production will fail, as it failed in Russia. Now, there is no reasonable ground whatever for suggesting that modern productive methods are not incomparably more efficient than individualistic hand production. It is not meant to say by this that the results of the modern industrial system are at present more satisfactory than those possible under mediaevalism, but that they could be. The essential factor which places the matter beyond doubt is the introduction of natural, solar energy into the work of the world, through the agency of coal, water-power, internal combustion engines, and other agencies of energy-conversion.

It is, therefore, *not* the operation of the plant but the purposes for which it is operated which are chiefly at fault, and it is over these purposes, the policy of pro-

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duction, that we are chiefly concerned to acquire control. Imagine a bank formed by the employees of one of the great producing industries, by the simple process of hiring a building and engaging a trained staff, and that all the wages and salaries of the operating side of this industry were paid through this bank—an operation of sufficient magnitude to place an ordinary banking business on a firm foundation at once. Such a bank, backed by the economic power of a Trade Union on which it might rely, might claim with success that, as representing one of the factors of production, and consequently one of the factors in the *credit* attaching to production, it should issue a considerable and agreed proportion of the flow of purchasing-power which forms the vehicle of that credit. This would take two forms—the provision of short-term loans for current business, and of irredeemable loans for capital expansion. Now, it should be clear from what has been said that such a bank would control policy in the proportion that its financing operations control the productive organisations obliged to come to it for money.

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Imagine each client of this bank to have one share and one vote at a shareholders' meeting, the object of such meetings being to afford an opportunity to discuss the action taken by the bank's officials in their use of the bank's financing powers, *not* to discuss the bank's own financial success, for such a bank as is suggested should pay no dividend. It should be observed, and it is vital to a grasp of the principle involved, that this bank is solely concerned, like all other finance, with economic *policy*, not with the administration of economic *process*. Consider what happens in the relations between these financing banks and the productive organisations or companies which they will admittedly control. The management of a producing company, with the aid of its expert technical knowledge, will initiate a programme of production, and will submit this programme with estimates of its cost to the banks. The banks are not concerned with any questions of either practicability, method of achievement, or any other questions dependent on technical knowledge—they are simply concerned to give a quick answer to a

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plain question: "Will you pledge the community to pay so much for so many articles, delivered at such a rate of delivery, commencing on so-and-so date?" If the banks say yes, they pledge the credit of the community to that extent exactly as they do, uncontrolled, at present, because each issue of credit dilutes the purchasing power of every existing unit of purchasing-power, *per se*, a dilution which is only cancelled by the actual cancellation of that purchasing-power. If cancellation takes place by the recovery of this credit from the public through the agency of prices, then the public interest is to keep prices low, while, under existing conditions, the producers' interest is to keep them high. Now, since our imaginary bank is founded in the first place on a Trade Union, which is a union of producers, it is clearly vital to know whether its shareholders will support a consumers' policy or what seems superficially a producers' policy.

Let us abandon at once any sentimental ideas which are based on "a change of heart." What we want to know is, "How will a body of men whose fundamental

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reason for association is goods, not work, act under certain specified conditions, which we want to arrange in the general interest?"

Consider two alternative policies to be before, say, a miners' bank. One raises the price of coal while raising the remuneration of the miners, the other lowers the price of coal. The miners are producers of coal, but they are consumers of forty-nine other articles into which the cost of coal enters, so that while the miners would receive more for their product, they would pay more for all other products. The question we have to answer is, "On which side does their advantage lie?" and the solution is concerned with the dynamic nature of industry—the constant movement of all the factors in it.

Remembering that all money, whether for wages or salaries, paid to induce people to produce is an advance of financial credit in respect of future production, we can see that if this advance had no effect on *present* prices the miners would benefit at the expense of the public. But since, under existing conditions, this additional purchasing-power released against the existing

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stock of goods raises their price at once (just as we know that building a new railway bridge will raise the price of bacon at the nearest village shop), the advantage is very temporary, and is absolutely reversed in the case of the individual who has any stock of money.

But infinitely more important is the *real credit* aspect which is also essentially dynamic. *When a miner raises coal, which is a vehicle of solar energy, he increases the real capital of the community, its increased capacity to deliver goods and services, out of all proportion to the "cost" of raising it.* Consequently, as a consumer, he should receive goods at some future date much cheaper as a result of raising this coal—*i.e.*, in order to get value for his money the *price* of the articles he buys with it must be diminished by the *credit-value* of the work he does. Anyone familiar with the mathematical conception of an acceleration will grasp the point without difficulty.

When coal is raised in the community, the credit of the community is increased, not by the cost of raising the coal—*i.e.*, the money-value of the work done—but by the

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increased capacity of the community to deliver goods and services of the desired variety to individuals composing the community; and this credit-value is dependent on the use made of the coal when it is raised, and may be out of all proportion to the cost of raising it. The chief component in this credit-value is supplied by the community itself. There is no useful purpose served by raising coal in the middle of the Sahara unless you can either get it to the community or popularise the Sahara as a manufacturing or social centre. Therefore, remembering that the *cost* in wages and salaries is simply a financial credit-issue, no matter where it comes from—*i.e.*, just as the banker advances credit to the employer, so does the employer advance credit against future production to the employee—it is obvious that as a major part of the real credit involved in the operation is dependent on the use made of the coal by the *community, it is fundamentally impossible for the cost, which is incurred prior to use, to be equivalent of this credit*—*i.e.*, no private employer could ever pay such wages, and recoup them in prices

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from the public, as would represent an issue of purchasing-power representing the credit created by the proper use of the coal. *In any such transaction, for it to be effective as a distributing agency, there must be an issue of purchasing-power from some organ representing the creation of credit by the mere presence of the community—i.e., the total purchasing-power should exceed the cost to the extent that the total net capacity of society to achieve its desires is enhanced by the operation in question.* Overdrafts and similar transactions by banks represent, to a limited degree, such an issue, and without them production is impossible. This is the same thing as to say that price to an ultimate consumer should be that proportion of cost which is represented by the ratio of credit-destruction to credit-production, and as the credit-production is a function of the community, it is quite clear that the credit production and destruction must be *generalised*—you cannot say that a ton of coal raised will represent so much credit-consumption when it is burnt, because some obscure professor may devise a method of using coal which at any

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moment may double its usefulness. The vital and somewhat unfamiliar element which it is necessary to bear steadily in mind in the examination of this subject is its dynamic character—that all the time there is a ceaseless flow of credit-production arising out of countless moral, intellectual, and material factors, and a similar but fundamentally smaller drain on this production which can be described as depreciation, and the real general ratio of the generalised income to the generalised expenditure must take account of all these factors. When, as at present, a whole civilisation is profoundly dissatisfied with its economic system, an element of depreciation is introduced which has far more influence on real credit than the most colossal destruction of material property by fire or otherwise.

If it can be made clear to the individuals whom we are placing by hypothesis in control of the policy of the mining industry that each of them, as individuals, benefits by an increase of the ratio of credit-production to credit-consumption, we shall bring individual interest *plainly* into line with

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the general interest, and so, apart from other factors, enormously expand real credit.

The one aspect of the economic system which is admittedly and clearly of interest to all individuals is price, and if, therefore, the miners can affect general prices in favour of the consumer without injuring themselves, we can rely on them as reasonable human beings to use their power to further such a consummation. Let us suppose the price of all commodities, including coal, bought for beneficial use by an individual consumer, to be equal to the cost of production multiplied by a fraction representing credit-consumption divided by credit-production, but that the price of coal bought for further production to be equal to cost simply; then the miners' clear interest as consumers is to create as much credit as possible for a minimum cost of production, because the cost of coal goes into the price of everything else bought, and these prices are only lowered *to the consumer* by the creation of real credit dependent, *inter alia*, on the use made of the coal. In everyday language, then,

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such a control as we are suggesting would operate towards the raising of the maximum amount of coal, at the minimum cost per ton, up to a limit where, in the judgment of the public acting through their expert officials in the banks, the credit-production per unit of coal raised was a maximum. After this point difficulties would be placed in the way of further coal production, and the man-hours of labour absorbed by the mining industry would begin to decrease and the relation of credit-production to cost would increase—*i.e.*, the industry would produce the same amount of real purchasing-power for distribution amongst its members through the agency of dividends with less work, wages, and salaries. It will at once be said by the dogmatic Socialist: "Yes, we thought it would turn out that the idle rich would benefit!" He is quite right, but let us see exactly who are going to be the "idle" rich.

The bank we are discussing, let it be clearly borne in mind, is not a mining company, it is a bank which we postulate shall finance in increasing proportion a group of mining companies, and be controlled

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and exist in the interest of, in the first place, those actively engaged in the mining industry. Now, by its issues of credit to these producing companies, it would eventually become possessed of most of their shares, which it would hold for the benefit of its depositors. Assuming a standard rate of dividend and an increasing number of shares due to successive "capitalisation," the depositors of this bank would be the beneficiaries equally of all the increasing number of shares held by the bank; so that as improvements in process displaced men from industry the purchasing-power they had helped to create would be available in the form of dividends. The mining industry would thus not have to consider the provision of employment—its sole preoccupation would be the delivery of coal in the right quantity to the right order—the order of the public, acting on the best advice available.

Those persons whose aptitude for the work was least would be displaced from the industry first; and in the earlier stages of the new order, the desire for remuneration in addition to that provided by their

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dividends, and in the later stages, the necessity to find an outlet for their reactive activity, would drive such persons to seek fresh fields of usefulness—a process of readjustment clearly tending to the very highest efficiency in the broadest sense, that resulting from the increasing suitability of individual and employment.

CHAPTER XII

The measurement of Credit-production
—What is "capitalisation"?—The growth
of wealth—True Price—The sources of
statistics.

CHAPTER XII

It will no doubt occur to numbers of persons who on consideration of the foregoing arguments might find themselves in general agreement with them that the measurement of so apparently indefinite a factor as credit-production would present formidable difficulty. So far from this being the case, it is an operation which forms the basis of the whole activity of finance applied to industry at the present time, and the mechanism exists to enable the new basis of credit—the *useful* (to human beings as such) productive capacity of society—to replace the present basis of credit—*i.e.*, currency—without the very slightest shock either to industry or to society, but with a steady and rapid appreciation both of the amenities of life and of the efficiency of industrial processes.

The key to the problem lies in control, as the National Guilds propaganda has

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previously been at pains to point out, without quite realising where control was resident. That element of the production system, which is loosely and erroneously referred to as being its "capitalisation," is its *credit*, and each increase in capitalisation is made on the assumption that the increase will pay a dividend—*i.e.*, represents increased capacity to deliver something. Now, because the control of this increase, through the agency of finance and credit-issue, is in the hands of persons whose objective is not goods, but money, this financial increase is not a reflection of an increase in potential capacity to deliver useful goods and services, but merely, as we have just said, in the potential capacity to deliver money; but if the control of capital issues were in the hands of the consumer, then *ex hypothesi* a "capital" (*i.e.*, credit) issue would be a measure of increased capacity to deliver goods and services of the description required by those in control of policy.

In this latter case the ratio of real credit-production to credit-consumption would be

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expressible in financial terms, and would be equal to:—

“Capital” (i.e., appreciation) issues per annum +
credit-issues (i.e., cost of goods produced per annum)

Depreciation + cost of goods consumed per annum.

Once again it should be noticed that all the symbols in the preceding expression denote *rates*.

It will, of course, be understood that no *absolute* unit of measure of value is either possible or needful; it is, however, the popular delusion that a gold or other standard is an absolute measure of value which has obscured the economic problem for so long. The only possible standard which can be applied with accuracy to the measurement of economic value is that of ratio, a standard which does not require that we postulate anything at all about the unit used to establish the ratio, except that it is the same unit. To readers who are familiar with the mathematical hypothesis known as the theory of relativity, the basis of which may be quite simply expressed in the statement that it is impossible by means of physical measurements to determine the absolute velocity of a body through space,

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certain analogies will no doubt present themselves. For the average person, not particularly interested in such matters, no difficulty arises in grasping what is meant by “ten miles per hour,” even though he cannot conceive of “a mile” as distinct from “a mile long.”

When, therefore, we say that:

True Price (in £)	cost of ultimate products consumed (£) + depreciation of real capital in £,
= cost (in £) ×	-----
	credit created (in £) + cost of total production (£),

we do not require to know anything about the properties of the pound sterling; we do not, for instance, require to know what is the absolute quantity of labour for which it is a “just” remuneration, and still less is it a matter of the slightest interest how much gold it represents.

We are simply saying in effect: “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. Whatever unit we adopt for it, the number of these units held by the individuals who

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collectively compose society must be such that by surrendering these units they will receive in exchange all the goods and services which society can possibly deliver. As society's *capacity* to deliver goods and services is increased by the use of plant and still more by scientific progress, and decreased by the production, maintenance, or depreciation of it, we can issue credit, in *costs*, at a greater rate than the rate at which we take it back through *prices* of ultimate products, if *capacity* to supply individuals exceeds desire. This it can always be made to do, by ensuring that the production of capital goods is secondary to a sufficient production of ultimate products, and their delivery to individuals."

It will be seen, therefore, that we have every type of information required to fix the ratio we require at our disposal at any moment. The loan credit accounts of the banks, plus the ways and means and note and bond issues of the Treasury, plus the increase in capitalisation of productive organisations, roughly represent credit creation; cost of production is obtainable from the "factory" cost accounts, includ-

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ing now agricultural production accounts; the quantity and consequently the collective costs of articles bought by (*i.e.*, delivered to) the public is available through such departments as the Ministry of Food, the Board of Inland Revenue, the Board of Trade, etc. In order to transform the measure of financial credit which these figures would give us into a measure of real credit, only two things are required: first, that control of credit-issue shall be in the hands of the consumer, so that production is moulded to his needs; and, secondly, that 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, both of which premises are eventually met by the arrangements previously described. That they are not met by the existing economic system is self-evident on a consideration of, say, the relative amount of expenditure during the last ten years on factories, as compared with that on houses; and on the other hand, the utter insolvency of the British banking system during the few days immediately subsequent to the outbreak of war with Germany.