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Major Douglas at Dunedin (N.Z.)

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There is no doubt that the following address will come to be recognised as one of the best ever made by the clearest thinker on economics of our time.

Its remarkable de-mesmerizing effect, its power of conviction, its lucid analysis, and its fascinating interest from the first word, marks it as a masterpiece—the wide circulation of which is a matter of national importance at the present time.—(EDITOR).

Mr. Chairman, Ladies and Gentlemen: I propose to take up your time for a little while with a certain number of considerations which you may not immediately connect with finance.

I assure you that, so far as the practical problem of dealing with the present situation is concerned, that these preliminary matters on which I wish to engage your attention are of primary importance.

Now I should like, first of all, to direct your attention to the fact that the advance of the world—the progress of the world—depends ultimately upon what I might call a point of view. And the world has been for a considerable time operating, as you might say, within two divergent points of view, one of which is old—as we count age—and one of which has a later origin to which I will refer.

The first of these points of view, or habits of mind, as you might say, is called by those people who deal in the science of logic, the DEDUCTIVE habit of mind, which may be translated as the habit of arguing from the general to the particular. Let me explain what I mean, and what is meant by that.

Supposing you had never seen a cow, and the first sight that you had of a cow was on the skyline standing still. You would see a silhouette of a cow, and it would appear to have two legs and someone would say, "That is a cow!" Now, if you had the deductive habit of mind you would immediately form a theory about cows and you would say "That is a cow. All cows are black, all cows have two legs, and all cows stand still." And when somebody pointed out to you in the plains a red animal with white spots moving rapidly you would deny that that could possibly be a cow. No cow could possibly exhibit four legs, have white spots, or move about. You have a fixed theory about cows, and your consequent theory about cows does not fit in with that theory, and, therefore, it is not a cow. (Laughter).

That is the deductive habit of mind. It has produced certain results of value largely in the sphere of moral and intellectual advance, and perhaps the most outstanding example of the deductive type of mind was the great philosopher, Aristotle, and his work is embodied in a book which is called "Aristotle's Ethics."

Now the great defect of the deductive habit of mind is that it is static, that it forms a theory—just as I was suggesting you could form a theory about cows—and in its pure form that theory is eternal. No facts will shift it at all. Anything that does not conform with that theory is not a fact.

This deductive habit of mind persisted from long before the Christian era until down to about the middle of the 16th century, when a man arose who became Lord Chancellor of England—Francis Bacon—and he wrote two books, one of which was called "On the Advancement of Learning," and the other was called the "Novum Organum," which no doubt most of you know means "New Method." And among the things that he said was something like this. (In writing down my notes for what I am saying to-night I had to quote this from memory because I have not the books here in New Zealand). Bacon said: "Further speculation along the lines of these great ancients is fruitless. What is required is to cultivate the just relationship between the mind and things."

Now that may—if you sort it out of its rather ancient English—seem to you to be a very obvious thing for anybody to say, but it was a completely new idea. It was an absolutely revolutionary method of thinking. It was the birth of the experimental method.

From that time onwards in certain lines of activity, instead of its being possible to set up a theory, and say that theory is a good theory, and is eternal, we have got into the habit of mind in certain spheres of activity of saying any fact is a good fact, and a great fact is a good fact, but any theory against which anybody can bring a fact which will not fit into it, is a bad theory and should be discarded. I want you to grasp that idea because it is vital in connection with what we are talking about to-night.

Now, up to the time of, and, of course, for some time after the formulation of this theory, which is called the INDUCTIVE method of thinking—the method of arguing from facts to a tentative theory which you discard as soon as it ceases to coincide with the facts, and this is the reverse of the idea of forming a rigid theory and blinding yourself to the fact—up to the time that this new inductive method of thought came into operation, I should like you to observe that from the material point of view the world made no progress whatever.

The method by which people got food, board and clothes, and kept themselves against the storms, and the way they built ships, and the way they progressed —their transportation—and so forth, made for all practical purposes no advance whatever in the centuries, thousands of years, between the birth of Christ and the sixteenth century—none whatever.

The formulation of a fixed set of ideas is a disregarding of facts. The world was warned against it nineteen hundred years ago, or so, when it was said that the letter killeth, but the spirit maketh alive. There is no doubt running through the warp and woof of things a certain amount of something that we can call absolute truth, but the form of that truth is always changing, and we are beginning to understand that even in a mathematical form is the theory of relativity. There is no such thing as absoluteness about any of these things at all.

Now this modern civilisation in which we live—the civilisation of railway trains and electric power and motor cars and mass production and things of that kind —is the outcome of the inductive method of thought. The methods by which we judge in regard to matters of economics and finance and so forth are the outcome of deductive methods of thought, the kind of thought which says that all cows are black, have two legs, and never move.

So far as our economic thinking is concerned, it has taken no cognisance, no notice whatever of the miraculous changes that have been brought about in the physical economic system by the inductive method of thought.

There is nothing seriously changed about economic thinking of the real kind, from about, at any rate, the sixteenth century. Some critic who thought that he had discovered something which would be very deadly to my views, said that such and such an opinion that I had expressed had been contributed by Sir Francis Somebody in 1640, and when I suggested that what somebody said about the economic system in 1640 was history and not news, he did not see the point.

That is exactly what we do to-day when we argue in many cases about certain things that are interwoven with the existing state of affairs. You will hear people talking about the virtue of thrift and economy as connected with the present economic system. For instance, the Prime Minister of Canada—if he was correctly reported, and I only saw a very short report of what he had said—said that "Nothing but hard work and thrift would get Canada out of the difficulties in which it is." Now, that is exactly the sort of thing that might conceivably have been true about 300 years ago, and it has about as much to do with the present difficulty as the picture of cow on the hill silhouetted against the light. If hard work and thrift would have saved the farmers of Canada, they would have been saved long ago, because they are as hard-working and as thrifty as any body of men in this world.

That is not to say that something that we might call economy and something that we might call thrift and hard work are not things which have an application perhaps even at all times, but their application to the situation changes because the situation changes, and the form in which it is true to say that economy and thrift are virtues of the economic system to-day is quite a different form to that in which it was true three or four hundred years ago.

We are still, in our economic thinking, under the spell of a set of ideas which apply to an age of scarcity, and we are not living in an age of scarcity; we are living in an age of plenty, as the result of the application of the inductive method of thinking, and I want you to apply to what I am going to say, the inductive method of thinking. I want you to look at the facts, to discard any pre-conceived theories about them and see whether the facts correspond with what I might put forward as a tentative theory, or whether they correspond with your old pre-conceived ideas. That is why it is so necessary to realise these two different kinds of thinking.

Now, what are the facts? I have gone over the facts in so many places, and I think it is so much common knowledge, the facts of the abundance of production at the present time, that I am really almost ashamed to inflict it upon you. But, as you know, there is hardly any staple product at the present time of which there is not an actual surplus, and there is no product of any kind whatever of which there is not an easily realisable potential surplus. We know that in Canada, as the result of hard work there is an enormous surplus of wheat. The same thing is probably true in the Western States of America. The United States Government is paying a bonus to farmers not to grow wheat—not a bonus to grow wheat, but a bonus NOT to grow wheat. The same thing is exactly true of cotton. I need not rub in the position in regard to wool in speaking to a New Zealand audience. I have no doubt the same thing is very nearly true in regard to wheat here. I have absolutely exact knowledge that three or four times as much wheat as is grown in Great Britain could easily be grown at the present time. The same thing is true as far as actual surpluses are concerned, in many staple lines.

Cows are being condemned on the plains of the Argentine. Sows are being killed with their litters in the United States to reduce the number of pigs. In every way you have this insane preconception that you have got to bring the standard of living in the world down to a pre-conceived idea, and you must not distribute the surpluses unless they are distributed on the lines laid down by the financial conventions now current.

Now these are actual surpluses, but consider the POTENTIAL surpluses! There is probably not a manufacturer, a farmer, a producer of any kind in any part of the western world, by which, of course, I mean western in the cultural sense, which includes New Zealand, Australia, Canada, United States, Great Britain, and so forth who could not treble his output if he were asked to. The plant that he has is not working to anything like full capacity. He is not employing anything like the number of people who could be employed, and would be willing to be employed.

IN EVERY POSSIBLE WAY IN WHICH YOU CAN TURN, BEHIND THIS FRONT LINE OF ACTUAL SURPLUSES YOU WILL FIND ANOTHER, AN ENORMOUSLY GREATER LINE OF POTENTIAL SURPLUSES. NOBODY WHO WILL LOOK ON THESE FACTS WITH A COMPLETELY UNBIASSED EYE COULD POSSIBLY SUGGEST THAT WE ARE NOT ACTUALLY ON THE DOORSTEP OF A WORLD OF ABOUNDING PLENTY. BUT LOOK AT THE LINES THAT WE TAKE IN FACE OF A SITUATION OF THAT KIND!

During the past year there was held in London—in 1933—one of the greatest conferences that ever met together, a world economic conference, and the entire agenda of that conference was to consider means of making the production of the world fit the consuming power of the world, not to make the consuming power of the world fit the production power of the world, but to bring down the production power of the world to the existing purchasing or consuming power of the world.

When the history of this period comes to be written it will, I believe, form a genuine puzzle to the historian to know how a group of sane men should meet together to discuss an agenda of that kind, and they could not do it if it were not that they are under the mesmerism of this deductive method of thinking which will not face the facts and will insist on operating under outworn and obsolete theories of what is the correct thing to do. (Applause).

I want to stress that point because it is frequently said that the world is in its parlous state because of a number of men —very limited, perhaps—who are so determined upon their own interests, that because of their own interests—their own selfish interests—they will see the world go up in flames rather than allow things to be put right.

Now that is a truth to some extent, but it is only a half-truth because you will find first of all that the most able and the most active at any rate of the upholders of the outworn financial system, are not men who are really making very much out of it at all. For instance, only a very short time ago—I think it has been increased now—the salary of the Governor of the Bank of England, who, so far as the people who are in the public eye are concerned, is probably the most powerful man in the world, was only £1,500 a year, which for work of that kind and that importance is a very small salary, indeed, as I think you will agree. I think it has been raised now to something like £2,500 a year, but it is still trifling in comparison with what he is engaged upon.

It is not necessarily pure self-interest which is so dangerous in the world at the present time; it is mistaken idealism, an idea as to what other people ought to be made to do, and you will find exactly the same thing in the ranks of people who have no interest whatever in maintaining the financial system so far as they are concerned, but the ideas which they express are exactly in line—although they may take different form—they are exactly in line with those theories expressed by the heads of the financial system; that whatever happens, no matter what the facts are, the first thing that must be done is to bring down those people who have reached a certain height, to bring them down to the level of others. They will say that is what they call justice and that is a deductive idea, and the idea which is very often behind the financier is that it is good for the world to be kept in a state of fear and want, and that people are not improved by having a higher standard of living. The thing is blasphemous, but it exists, and it has to be reckoned with. (*Applause*).

The thing began, of course, some time ago, with the theories of a gentleman by the name of Malthus, who had a theory that the increase of population pressed, as he put it, against the standard of living, that as you raised the standard of living so the population grew. There are people in responsible positions at the present time who are still putting forward that theory; whereas every fact, every statistic which it is possible to produce, shows exactly the opposite, that as the standard of living rises so the size of families decreases, and you will find always the largest families are those who live on the lowest standard of living; but facts of that kind bounce off a certain type of mind like peas off a steel plate, and they will go on putting forward the same theory.

Now, another way in which I want to give you two instances of the way in which this idea runs through our actual conditions at the present time. You will see quite frequently cases of men being condemned—fortunately to light sentences—because they were starving and stole perhaps a little bread, or something of that kind—nothing that I am saying I hope will be regarded as a condonation of stealing—but the idea that you condemn a man to punishment for stealing a loaf of bread, and that you are destroying huge surpluses of wheat and preventing further wheat from being grown at one and the same time, seems to me to be most tragic and absurd.

Now take another way in which this habit of mind affects people. You have most of you prbably heard of the Quebec Bridge, across the St. Lawrence, at

Quebec. Now, when the Quebec Bridge was first half-built, the engineer of that bridge, whose name, fortunately I have forgotten—and perhaps it would be better to forget it—two days before the time that I am speaking of, delivered a lecture at Connecticut University in the United States, in which he said, in so many words, that the engineers of the Forth Bridge, near Edinburgh, ought to have been indicted for a mis-use of public money because they put far too much steel in the bridge. Two or three days, certainly not more than a week after his making that speech, the unfinished Quebec Bridge, which he designed, blew down because there was not enough steel in it.

The idea which had been in that man's mind when he did that was that he had become oblivious to the fact that there was plenty of steel in the world, that every one of the steel manufacturers in the world would have been delighted to have provided him with a little more steel, but the important thing was not to build the best and the strongest and the safest bridge, but that the important thing was to do it with the least expenditure of something that we call money, which has nothing whatever to do with the strength of bridges.

THAT IS THE DEDUCTIVE HABIT OF MIND COMING INTO YOUR DAILY LIFE.

Now I was pointing out to you that we had, beyond all question, surpluses of wealth, either actual or potential, which are sufficient to provide every man, woman, and child in the so-called civilised world with a high and secure standard of living, and there is nothing whatever in the ethical facts of the world to prevent this being done, almost, as you might say, to-morrow, but something is standing in the way of that. Before going on to consider what is standing in the way of that, let us consider some more facts of what is actually happening in the world to-day. The first I have referred to—there is surplus production. Over against that surplus production there are people who want the production so that what we mean by surplus, actual surplus production at the present time, is production which is not purchaseable by people who want it because they have not something that we call money with which to buy it. That is what we mean by surplus production.

The next thing is something that results from that, and we call it unemployment. That unemployment frequently results from surplus production, because of course, if you have a surplus unpurchaseable production, you do not want to make any more. The one obvious meaning of that is that the unemployed form surplus productive capacity; that, of course, is unchallengeable.

Now the unemployment causes something that we call poverty, which does not mean that the goods are not there, because we have seen that they are there, but it means that there are a certain number of people who lack again something we call purchasing power, or money. We have, and I have referred to it, redundant industrial machinery and agricultural production. As the result of that—and now we are getting into what we can call higher levels—we have a constant accumulated competition between producers to sell, and because of that constant competition to sell, we have a disappearance of something that we call profits. The disappearance of those profits is simply the disappearance, so far as those people are concerned, of purchasing power.

Once again, you see, the thing comes up in every form that you look at it—profits are purchasing power to the manufacturer just as wages are purchasing power to the man if he is employed. Then you have a consequent presence of industrial depression and bankruptcies, all of which are simply lack of purchasing power. And then, finally, you have competition to sell abroad, because you have not got sufficient markets and purchasing power at home, and that competition to sell abroad is the primary cause of modern war.

Now, I am sometimes, not very often, nowadays, accused of being what is called a crank. (Laughter.) I do not think that it is justified, and not very many people, as a matter of fact, say it now. But I will read to you something which I took up, quite by accident, in the lounge of my hotel this afternoon. It is in the journal of the London Chamber of Commerce.

Now I suppose he would be a bold man who would say that in regard to business matters, the London Chamber of Commerce is a body of cranks, it is probably the most conservative body of men in the world, and one of the richest and wealthiest and most powerful, and I will read to you just one or two little things that I took up quite by accident. I had not seen this before this afternoon.

It commenced by saying, "Instead of an exchange of goods and services between nations to their mutual advantage, the existing financial system compels everybody to struggle to acquire the means of satisfying the moneylender. The system definitely conflicts with the conception of mutual and international co-operation, and all attempts to reconcile the two must fail," and that, if you please, is in connection with the existing financial system, and it is from one of the most orthodox journals, I suppose, in the world.

Now, what is this thing that appears as a component of everyone of those symptoms that I have discussed, that is purchasing power.

WHAT IS IT? IS IT ONE OF THOSE THINGS FOR LACK OF WHICH WE MUST DIE, OR IS IT SOMETHING WHICH IS PART OF A SYSTEM, WHICH IS LIKE A SYSTEM UNDER WHICH YOU PLAY A GAME?

Is it something which is a left-over from a state of affairs which might at some time or other have worked satisfactorily, but no longer does? Well, as a matter of fact, we may say at once, of course, that it is nothing but a system, but there is this curious thing about this money system, that not only has the situation, the facts of the world moved away from it, but the system itself has changed, not in accordance with the facts, but, as you might say, turned in the opposite direction to the facts, in which, perhaps, it is almost unique.

Now, I want first of all to explain to you how the money system—even if it were exactly the same money system as it was three or four hundred years ago—how that system was separated from the facts, and then I want to show you what has happened to the money system. The mediaeval production system, the one which was operating up to the time that the inductive method of thought began to make its work felt, was, of course, a non-industrial system, which was a system of handicraft and not co-operative, and it was necessary to exchange production between individual producers, and it was true at that time, undoubtedly, to say that one of the primary functions of money was to act as a medium of exchange.

It is very symptomatic of the sort of thought that is applied to finance and economic matters that money is very often now defined as a medium of exchange, which is, quite correctly speaking, untrue. But in those days money was a method by which things were exchanged between individual producers. Now the modern production system is not in the least like the production system of the Middle Ages. It is not merely different in size, it is different completely in principle and in form and in method.

It consists of utilising the powers of Nature for the use of man, and by utilising this power of Nature we have transformed the nature of the production system, so that we now almost practically draw from a central pool of wealth which is created and kept full and increasing by a decreasing number of operators who are working upon something that we call the heritage of civilisation—they are working on machines and by the use of power and things of that kind, of process and organisation, which are the accumulated results of the inventions and the administration and the organisation of large numbers of people, many or most of whom are now dead. You have here a sort of idea which we recognise in our patent laws when we allow a man to say, "This idea is mine"—and for 14 years, during which he has to pay a tax on it even to call it his—but after 14 years it is common property; and these things which produce the best part of this enormous production of wealth in the modern world, are a cultural inheritance which is the property of all of us.

Take such a very simple case—you might say, such an unsuitable subject—as wheat. Now I dare say a number of you know that the extent of the wheat-growing capacity of Canada has been enormously increased by the production of things like chemical fertilisers . . . wheat which can be grown so quickly that the short six weeks' summer of the extreme high latitudes enables that wheat to ripen. That is an excellent factor by which we increase the wheat producing capacity of the world.

At the State Agricultural Investigation Department of Cambridge University they *are confident that under certain conditions they could produce a wheat which would grow 90 bushels of wheat to the acre. I do not know that it has actually been done except experimentally, but if it were that would be a cultural inheritance which would increase the wealth of all of us, and the point I want to make is that this wealth pool is a central pool to which both the living and the dead have contributed, and from which we all can, or ought to be able to, draw, as inheritors of this tremendous legacy of civilisation.*

Now that is quite a different conception of an industrial and production system from that which consists of exchanging the production between individual producers. You only have to conceive of the progress being continued rapidly to its logical conclusion, and you get a state of affairs in which the wealth of the world will be produced by relatively few people, and that is going on quite directly and obviously, and the reason that we can do that is very largely by the importation of mechanical power into the production process.

Now, we have this pool of wealth in the centre, and round this pool of wealth we have a surging mass of humanity of which, as the Chairman said, two-thirds is either on or over the border line of poverty, and you have what ought to make the situation patent to the eye of anyone, you have increasing insecurity amongst those who are above the border line—even those are no longer so secure in their living as they were.

The pressure of this system is acting on everybody, no matter what his state of life may be, and the insecurity is growing and the riots and the revolutions to which the Chairman referred, and which are increasing every day, are the direct result of that situation. They are the result of having a pool of wealth upon which the population cannot draw. That is the root cause of the trouble.

(Applause).

How do we draw upon wealth if we do not exchange it with each other? If we have ceased to live in what is called a barter economy and are now living as we are in what is called a money economy, how is it that we cannot draw upon this wealth by means of money? Money has been defined as anything which, no matter what it is made of, nor why people want it, no one will refuse in exchange for his goods or services provided he is a willing seller, and you will see that that definition entirely rules out of the question the idea that there can be any fundamental reason why we cannot have enough money.

It can be made of anything—and we know that, in fact, it is made of paper and ink. Now I do not suppose that anybody will suggest that there is not enough paper and ink in the world to make enough money, but of course I am not going to suggest for a single instant that making money by the simple process of printing it is at all a cure for this situation. IT IS NOT.

Consider what our money system really consists of. It is nothing but a double-entry system of book-keeping. We have on one side a productive system which produces goods. Now notice that that productive system does not produce money as you will see if you will turn to this article from which I quoted.It is an excellent article for anybody to read, for as I have often said myself—and I cannot help feeling that in this article, something has been quoted from what I said before—you can make wealth—real wealth—from year's end to year's end, you can grow wheat, you can build motor cars, you can run trains, you can do any single thing which conduces to the production of REAL wealth, and you will not thereby make one penny of purchasing power. (Applause.)

The production of wealth and the production of purchasing power or money are two entirely separate processes. What you do when you carry on a business is to scramble between yourselves for whatever money is available; you do not make it. A phrase that a business man makes money—I have no doubt it will bring a smile of derision to any business man at the present time—but the idea that he can possibly make money is a direct misrepresentation, all that he can do is to get the money that somebody else had before him. The actual production of purchasing power and the production of goods are two separate things.

At this point I think it is vital to explain exactly how the money system arose, and what has happened to it. The money system began by common consent amongst the owners of primitive wealth, which was cattle, and the cattle owners used to punch leather discs, some of them with the heads of cattle on them, and some of them plain discs, and they used to exchange these discs for corn to feed their cattle, and the corn dealer would not always at the moment collect the cattle, but he would sometimes send these leather discs and would collect the cattle afterwards. An essential thing to notice about which is that the discs, the money, and the wealth, arose at the same point, and the owner of the wealth —if you like to call him the producer who provided the cattle, did actually, did literally, make money, stored the money himself.

It is quite obvious that some bright genius particularly in the tribes amongst which this practice was prevalent would get the bright idea of punching discs when he wanted any cattle, and that of course was the first inflation, and I have no doubt that that system had to be modified, but I want to take you by a big jump to the second stage—to the goldsmiths of the Middle Ages. The goldsmiths of the Middle Ages were the lineal ancestors of the present bankers. They were primarily, of course, artificers in gold and silver plate, but because of their strongrooms they were also the custodians of portable wealth. The feudal knights of the Middle Ages deposited their plate with the goldsmiths for safe keeping, and the goldsmiths issued receipts for that wealth, and signed for it in the bottom right hand corner.

Those receipts which were on parchment and consequently wore very well, began to be passed about in payment for things that were bought. They began to be given in, say, for a plot of land; in place of drawing out the gold plate and handing over the gold plate in return for the land, the man who had originally deposited the gold plate handing over the goldsmith's receipt, and the point to notice which is absolutely vital to the question, is that it was the goldsmith's signature on the receipt which made it acceptable and not that of the owner of the plate.

It was accepted because the goldsmith was known to be a man of repute, and it was an acknowledgment by a man of repute that he had in his possession certain valuables of a portable kind, and those parchment receipts began to be passed about as a form of money, and that is the direct ancestor of the modern bank note, and the modern bank note takes its value from the signature of the cashier, who is the descendant of the goldsmith, and the signature is, as it was before, in the bottom right hand corner of the note, which is just a receipt.

Now you will notice that at that point the creation of money passed from the owner of the wealth to the custodian of the wealth, but it still remained the convention that every receipt represented some piece of wealth which had been deposited with the goldsmith, or the banker as we will now call him.

However, the goldsmith found—the banker found—that these receipts remained out a long time, and very often were changed from hand to hand, and were never used to draw out the plate at all, so he got the bright idea of issuing two or three receipts for one piece of gold, and those receipts passed from hand to hand and worked perfectly, quite satisfactorily, as long as three owners of one receipt did not present them at once for one piece of plate—if they did the banker went into liquidation. (Laughter.) That was the existing convention of the banking system until, say, the time of the Great War.

It was assumed, and it was stated, for instance, on a bank note, that so far as the Bank of England notes were concerned, they contained the statement—I quote from memory—"I promise to pay on demand the sum of five pounds in gold," and anybody who had a £5 note, could go to the Bank of England and get five golden sovereigns at any time—you cannot do that now—and the convention was that these were nothing but receipts, and that if a man had a cheque book on which he could draw those deposits, that those deposits were some way or other represented by something which was called tangible wealth, and he could draw it out if he wanted to.

Well, at the end of July, just before the outbreak of the Great War, a bank rush was started. It was no doubt done from what we call enemy sources and everybody rushed to the banks in order to exchange their cheques or their notes for gold. They did not know what they were going to do with the gold when they got it, but for some mysterious reason they thought they would be better off if they got the gold for themselves. They all went at once, and there was what was called a "run" on the banks, and every bank in Britain was bankrupt within twenty-four hours, including the Bank of England.

There were £900,000,000 of deposits drawable by cheque in Great Britain, and the run on the banks exhausted all the gold in the country to the extent of just about £300,000,000. It was a very large sum of gold, and there were still £600,000,000 of deposits which were alleged to represent gold which could not be paid out. There were £600,000,000 of deposits which were alleged to have been deposited in gold for which no gold existed. They had been created by the process of issuing more receipts than there was gold.

What happened? The bankers said, "You cannot allow us to fail." Perfectly true, they could not be allowed to fail, so they had a meeting in London, and it was decided that all debts must stand for three days, no one could demand the payment of debts for three or four days—I have forgotten which—and when the banks re-opened they were supplied with little white pieces of paper which said, "This note is legal tender for one pound sterling." People took the notes, they drew a few of them out, and they had a look at them, and they found they did not know much about them and they paid them in again. They worked perfectly, and from that time to this the convention that money is always represented by something alleged to be of value like gold, is completely smashed.

What did they represent, those things that we all accepted as being good for £1. They represented a belief which was justified by facts that the general producing capacity of the country was responsible to the owner of one of those £1 notes to the extent of goods priced at £1. *In other words they rested on the general credit of the country.*

But to return to those notes—we can save time by moving on to 1928, when the last Treasury Note was issued, and all notes in Great Britain are now issued by the Bank of England. There is no longer such a thing as a Treasury Note in existence, in circulation at any rate, and all notes bear a picture of the Bank of England and the signature of the Bank of England cashier. These notes are issued by the Bank of England and they are claimed as the property of the Bank of England. They are only lent and never given except in return for tangible wealth.

The consequence is that we have the extraordinary position that this ticket system, which is what it is, of course, has now passed into the hands of a private organisation, which is in a position to issue tentative tokens for all the real wealth which the productive organisation, which is something quite different, can produce, and it claims all these tentative tokens as its private property, and only lends them and never gives them except in return for tangible wealth. The consequence is that all wealth which is produced through the agency of money increases our corresponding debt to the bankers, and it is that debt system which is at the core of the present financial system.

IT IS QUITE AN INCREDIBLE THING, THOUGH IT IS TRUE, THAT YOU SHOULD HAVE AN ORGANISATION NOT RESPONSIBLE TO ANYBODY, NOT ELECTED BY ANYBODY, NOT DISMISSABLE BY ANYBODY, WHICH HAS SUPREME CONTROL OVER TRADE AND PROSPERITY AND INDUSTRY BY ITS CONTROL OF THIS THING THAT WE CALL MONEY. *(Loud applause.)*

I had a talk with a very pleasant and kind and, indeed, eminently respectable bank manager in Wellington, quite accidentally, a week or two ago on quite ordinary matters. The conversation turned on the banking system, and he claimed that the banking system was a business like any other business, and that it was run in order to make a profit like any other business, and that the sole consideration that it had in mind was to carry it on along the successful lines of any other business.

Well, I do not know whether that is an idea which is prevalent amongst all bankers. But if it is then it is the final condemnation of the banking system as it stands at the present time, because it is quite obvious that something which interpenetrates and controls the activities of the wealth-producing organisation on which we all live, cannot possibly, whether it is privately administered or whether it is publicly administered is not

the point—but it cannot be run as a private interest. That is incredible. (*Applause.*) *It simply means that everybody's business is at the mercy of this private organisation, and we know that it is.*

Now, what is the distinguishing feature of this situation? I have already mentioned it. It is a lack of something we call purchasing power. What do we mean by that? We mean that to this producing organisation that we know is so powerful and so successful, and has brought us up to this point of potential wealth in which we are, is attached an accounting process which attaches something that we call a price to everything that it produces, and that price is ultimately and fundamentally based on something which we call cost, which is nothing but the addition of all the little costs that have gone to make the final price. So that you have a producing system on one side that does not produce money, but it does produce prices. It produces a certain set of figures which have to be met on the other side by something that we call purchasing power. Get that difference clearly in your mind, the difference between the production of prices, price values, and the purchasing power which will meet those prices. The two things are quite different, they are the opposite sides of the ledger.

Now the defect of the economic society that we have at the present time, is a disparity between the collective prices which the producing system makes and the purchasing power which is available to transfer the goods with those price tickets attached to them to the people who want them. That is the distinguishing feature, and we have to put that right first of all.

There is an obvious way in which you might attack that problem, and as is so very often the case with obvious things, it is not the right way. You could print more of those little tickets which form purchasing power, but if you did that you would get into trouble, because, although prices cannot stay below cost for any length of time, they can rise to any extent above cost. The profit can be what the article will fetch and if you have more money about, articles begin to fetch more, not because they cost more, but because people have more money. That is true inflation. True inflation is a rise in the number of monetary tokens accompanied and paralleled by a rise of prices. That is inflation; an increase of purchasing power is not inflation.

Now you can attack this breach between the purchasing power and the prices by another method. You can leave for the moment the number of monetary tokens in the pockets of the population the same as they were before, and you can halve the prices. So far as the consumer was concerned he would now be able to buy what he could not buy before with the same amount of money because prices have been halved, but, of course, you would have obviously got into trouble with the producer. The producer would have lost what he had paid to a very large extent to produce the goods. Now supposing you apply a portion of the credit of the country to make up the loss to the producer? You would not have increased the amount of money in the pockets of the consumer, but you would have halved the price, and so would have enabled him to buy the goods, and you would have made up the loss to the producer out of the credit of the country, which is just production which you are now transferring to the consumer, and in that way you do not raise prices.

Now there are people who say you cannot do that without raising prices, they say all that involves inflation, and in any case it is not a good thing to do and so forth. Well, now I would like to point out to you that one of the most conservative organisations in the world, the British shipping industry, is now asking that exactly that thing should be done, and that it should be allowed to sell its produce—transportation—below cost in order to dispose of it and get custom; and that the difference between price and cost should be made up to it by something that it calls a subsidy. That is what they are asking, and that is the most conservative organisation in the world.

THE ONLY DIFFERENCE BETWEEN WHAT I AM SUGGESTING AND WHAT THE SHIPPING INDUSTRY IS ASKING, IS THAT THEY WANT THE BENEFITS TO BE CONVEYED SOLELY TO THE SHIPPING INDUSTRY, WHILE I WANT THE BENEFITS TO BE SPREAD OVER THE ENTIRE COMMUNITY. (*Great applause.*)