against financial policy correct, but that social poverty is unnecessary, and is in fact a crime against Society out of which the other questions of unemployment and war arise.

CHAPTER XII

THE PRICE OF PENURY :—
AN ANALYSIS OF PRODUCTION COSTS AND PRICE-FIXING

PRELIMINARY

IT is not logical to say that the price of scientific progress is economic poverty; nor that the cost of closer communion between the peoples of the world is economic war. However the mind prejudiced by preconceived ideas may regard the present economic organisation, he cannot, unless indeed he is wilfully blind, express satisfaction with the results of the present methods.

On the one hand applied science holds the key to unlimited wealth; further, new treasures are continually becoming available for the use of men. The conversion of this natural wealth, also, from the raw state to the form most useful to the consumer, is continually becoming easier :—

> The continual tendency of scientific progress is to remove the burden of labour from men to machines, and to make their planetary home more and more one unit to their immediate consciousness.

Must the labourer therefore starve because his work may be done more efficiently by a machine? Such is not the policy of thinking men, and if such an effect is imposed in practice, it must be because of a defect in a System that has passed beyond the stage of consciousness, and become to the minds of men an "inevitable,"—equivalent to the operation of a natural law.

Therefore when approaching the very core of the new analysis of "financial" economics, deliberate thought must be applied to the manner of approach. It must be remembered that on the other hand from the admitted triumphs of the productive sciences there is a darkness of individual poverty, misery, and degradation, and the rumblings of collective discontent and revolt.

Further, it must be emphasized again that the economic system is not a system into which the habits of men must mould themselves, but that it is merely the statement of those habits as interpreted by economic students.

If in the intricate and rapidly-expanding mechanistic civilization of the past century, the methods of control have had to be based on ready-made theories, it is permissable to criticise those theories by the effects of their application and, if their effects are seen to be poverty in the midst of a gigantic producing organisation, and struggle for the maintenance of disappearing foreign markets, every diagnosis of the defects of the system should be received with the proper atmosphere of scientific detachment, and if the remedy, as it were, is suggested naturally by a recognition of the disease, then it may be hoped that no class-interest or other unscientific prejudice should prevent the necessary amendment of the old and trial of the new method.

Some fundamental agreement is necessary to appreciate the force of an argument; it must therefore be taken as admitted that, if the element of "money" were entirely eliminated, and the productive

ing system allowed to work at fullest capacity for the production of GOODS DESIRED BY THE COMMUNITY, and finally, if each individual were to become entitled to a proportionate share of these goods limited only by the extent of production, then indeed the words "poverty" and "want" would have no meaning to any citizen.

Assuming that this in theory is possible, Major Douglas identifies the flaw in the system which makes it impossible in practice, by the present method of distributing GOODS to individuals by means of money-tokens. This is the point (No. 9) which in Chapter XI summarized the effects of the present circulation of money, and it is advisable to state the argument of Major Douglas in his own words.

THE DOUGLAS THEOREM REGARDING PURCHASING POWER

Briefly, the point emphasized is that the purchasing power issued to individuals MUST be included in the cost on which Price is based, and that the cost includes OTHER PAYMENTS, the Price therefore always being greater than the purchasing-power available to meet it. The proposition as stated by Major Douglas was given in the preceding chapter, and must be repeated:—

> "The Wages, Salaries, and Dividends distributed during a given period do not, and cannot, buy the production of that period; that production can only be bought, i.e., distributed, under present conditions by a draft, and an increasing draft, on the purchasing-power distributed in respect of future production, and this latter is mainly and increasingly derived from financial credit created by the banks."

There is contained in this theorem a dynamic conception of industry that is opposed to the static conception commonly held, and this idea of "flow" has proved to be elusive to many students, primarily because they endeavour to approach the problem with the older method of attack. Major Douglas supports the theorem as follows:

"A factory or other productive organisation has, besides its economic function as a producer of goods, a purely financial aspect. It may be regarded on the one hand as a device for the distribution of purchasing-power to individuals through the media of wages, salaries, and dividends, and on the other hand, as a manufactory of prices,—financial values. From this standpoint its payments may be divided into two groups:—

Group A. All payments made to individuals. (Wages, Salaries and Dividends.)

Group B. All payments made to other organisations. (Raw materials, Bank Charges, and other External Costs.)

"Now the rate of flow of purchasing-power to individuals is represented by A., but since all payments go into prices, the rate of flow of prices cannot be less than A. plus B. The product of any factory may be considered as something which the public ought to be able to buy, although in many cases it is an intermediate product and of no use to individuals but only to a subsequent manufacturer: but since A. will not purchase A. plus B. a proportion of the product at least equivalent to B. must be distributed by a form of purchasing-power not comprised in the description grouped under A."

In further elaboration, he gives the actual cost figures of one industrial operation:

"A steel bolt and nut weighing ten pounds might require in the blank about eleven and a half pounds of material, representing, say, 3/6. The net selling

price of the scrap recovered would probably be about one penny. The wages value of the total man-hours expended on the conversion from the blank to the finished nut and bolt might be 5/-, and the average plant charge 150% on the direct time charge, i.e., 7/6. The factory cost therefore would be 15/11, of which 7/6 or just under one-half, would be plant charge. Of this plant charge probably 75% or about 5/7 is represented by the sum of the items which are either afterwards wiped off for depreciation and consequently not distributed at all at that time, or are distributed in payments outside the organisation, which payments must clearly be subsequent to any valuation of the articles for which they are paid, and do not affect the argument. Without proceeding to add selling charges and profit, it must be clear that a charge of 15/11 on the world's purchasing-power has been created, of which only 6/10 is distributed in respect of the specific article under consideration."

The conclusion drawn by Major Douglas is that if the purchasing-power issued by one factory in any one unit of time cannot buy the product of that factory during the same unit of time at the price which the present system necessitates, and if all factories must price their production in a similar manner, (as they do), the aggregate purchasing-power in the hands of individuals must always be less than the price of the aggregate production which it is expected to buy.

Thus the necessity arises to export goods, or to obtain new bank credits to buy the surplus, or to distribute new purchasing-power to the individuals of the community.

> But such purchasing-power can only be distributed in return for work on further production and therefore creates a new "price" equal to itself.

" Thus it is that we find the whole industrial world, either glutted with unsaleable accumulations of stock or else plunged into a maelstrom of production, a mad striving of the various communities to earn, by producing goods, sufficient wages and dividends to purchase the accumulated production of the past, and being left ever farther behind in the race." (C. M. Hattersley, M.A. " The Community's Credit.")

DEFINITIONS

Knowledge of the actual operation of the financial system renders the main conception of the theorem quite intelligible, but some of the minor implications may require elaboration. It should be noted that the principal points regarding the issue and circulation of currency, set out in the preceding chapter, are crystallized in this statement of the fundamental defect of the system, and that the points emphasized arise naturally from the foregoing examination of the Money Trust and the impact of its policy on productive industry. The Douglas criticisms are statements of fact that must be accepted, and when accepted his interpretation of them follows logically. The following paragraphs illustrate the point; these are replies given to criticisms very often passed upon the theorem, to explain propositions, i.e.,

(1) THAT *ALL* MONEY IN THE HANDS OF INDIVIDUALS HAS BEEN IN FACT INCLUDED IN COST OF PRODUCING GOODS AND THEREFORE IN PRICE. This obvious fact is not always admitted, even when the method of issue of money has been examined. New money comes from the Money Trust, in the shape of bank loans; purchasing-power is distributed by industry. The principal sources of the incomes of individuals place the statements beyond dispute :—

WAGES AND SALARIES—

(a) In extractive, agricultural, and manufacturing industries are a part of the prime cost (wages) and factory or total cost (salaries) on which prices are based.

(b) In distributive trades, merchants, factors, wholesalers, and middlemen generally, are added to the purchase-cost of finished goods and included in price to the retailers; wages paid by the latter are included in the retail cost to the consumer.

(c) In transport, general and financial or commercial organisations, and professions, are issued from the charge levied upon either the vendor or purchaser of goods for distribution, and therefore are charged in Price,—or alternatively are issued from the payments received from individuals who transfer part of their previously-earned purchasing-power in return for services.

DIVIDENDS, INTEREST, ANNUITIES, AND PROFITS (OF SOLE TRADER OR FIRMS) can be classed as above, but obviously these cannot be realized in the case of businesses until the industrial process has been completed by the sale of the " Consumable " goods and receipt of the " price," while they do not become purchasing-power until actually issued to the individual. Such income, therefore, if from a business cannot be realized except from Price —and if from another individual (as mortgage or loan interest, etc.) is merely a transfer of income earned elsewhere from one to another.

RENTS.—

Of business premises or lands are included in cost as overhead expenses, and are recovered in price, and similarly agricultural rents and mining royalties are part of the cost-basis of price. Rents of private