

# **MAJOR C. H. DOUGLAS**

**BEFORE THE**

## **NEW ZEALAND GOVERNMENT'S MONETARY COMMITTEE**

### **Notes of Evidence and Examinations With Correspondence preliminary thereto**

SATURDAY, 24th FEBRUARY, 1934,

AT WELLINGTON.

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## PRELIMINARY CORRESPONDENCE

Dominion of New Zealand,  
Government Monetary Committee,  
Parliament Buildings,  
Wellington, N.Z.  
14th February, 1934.

Major C. H. Douglas,  
"Evening Post" Building,  
Willis Street,  
Wellington.

Dear Sir,

The Government of New Zealand has set up a Monetary Committee to enquire along the lines as set out in the Order of Reference enclosed. A copy of an advertisement which has been inserted in the Press throughout the Dominion is also enclosed for your information.

Owing to the prominence given to your proposals, the Committee feels sure that you will welcome the opportunity of meeting a Government Monetary Committee and is therefore very desirous that you should submit a proposal or any other definite scheme which might be made applicable to New Zealand.

The Committee would also appreciate your appearing in person in support of your plan, and will be glad if you will select a date suitable to yourself. Arrangements will then be made accordingly. The Committee has decided to commence its work on the 27<sup>th</sup> instant, but if, owing to your short stay in New Zealand, you would prefer an earlier date than the 27<sup>th</sup>, then the Committee will be glad to alter its present arrangements to meet your wishes.

The Committee, however, would be glad to have your proposals a few days prior to your personal appearance in order that the members may have the opportunity of studying them.

Yours faithfully,  
(Sgd.) D. BARKER,  
Secretary to the Committee.

### ORDER OF REFERENCE

To enquire into the monetary systems or standards which have been advocated as preferable to our present system, and, having regard to the nature of the trade and industry of the Dominion, our economic relationship with Great Britain, with other parts of the British Empire, and with foreign countries, and generally other relevant factors, to report upon such proposed systems or standards, with particular reference to their examination or adoption by other countries, their practicability, and the probability of their adoption promoting the development of industry, and the welfare of the people of New Zealand.

### MONETARY ENQUIRY

The Monetary Committee set up by the Government invites those interested to place before them their proposals for changes in, improvements or alternatives to the present monetary system of the Dominion.

Those desiring to put forward proposals are requested to make application to the Secretary, Parliament Buildings, and enclose a concise outline of their proposals for the preliminary consideration of the Committee. Those who wish to appear personally in support of their written statement should indicate accordingly, and they will be notified later as to when and where their evidence will be heard by the Committee.

J. A. NASH.  
Chairman.

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C. H. Douglas,  
Fifth Floor,  
Evening Post Building,  
Wellington,  
19th February, 1934.

The Secretary to the Committee,  
Government Monetary Committee,  
Parliament Buildings,  
Wellington.

Dear Sir.

I am obliged by your letter of the 14th instant.

(1) It would be a source of pleasure to me, and I have every wish to render effective assistance to your Committee in obtaining information which would further the welfare of the people of New Zealand.

(2) In regard to the suggestion contained in your letter that I might submit a proposal or definite scheme which might be made applicable to New Zealand, and upon which your Committee might report under their terms of reference, the position is complicated by the circumstance that. As I have been requested to assist at a somewhat similar Parliamentary Committee in Canada at an early date, I have inescapable commitments in the United States in regard to the same matters subsequently, I am obliged to leave Wellington towards the end of this week.

(3) I am confident you will agree that, in order to deal with the subject in question in a manner which would provide a complete survey of the situation, and would carry appreciable weight with responsible opinion, it is necessary that the defects, if any, of the current monetary system be established by a

Judicial Enquiry. At such an Enquiry suitable defendants of the existing system might be examined by agreed Counsel for its critics, both sides being in a position to call witnesses as to questions of fact. A similar procedure would no doubt be applicable to any suggested means of rectifying any defects exposed. Such an Enquiry on behalf of the New Zealand

[Page 3]

Government might quite suitably be held in London.

(4) Since at this juncture, time does not permit me to assist at an enquiry so organised, in Wellington, even should your Committee desire to take action along such lines, I can, perhaps, be most helpful if you would inform me—

(a) Whether your Committee is prepared to regard it as now being beyond reasonable discussion that the existing monetary system creates financial debt in excess of the capacity of the public to liquidate it, and that this situation arises from the lending and other disposition of financial credit, constituting purchasing power, by institutions claiming the exclusive prerogative of its creation.

(b) Whether, on the contrary, your Committee does not wish to comment on or investigate the current working of the Financial System and is therefore precluded from a favourable view of proposals which would traverse it.

The suggestion I should be prepared to make in the latter case would, if carried out, naturally be less effective than those made on the basis of the assumption contained in (a), but I am hopeful that you might, even so, find them of value.

(5) It is perhaps unnecessary to add that any suggestions would be made with a view to implementing the wish contained in the second paragraph of this letter, and not with a view to obtaining an expression of opinion as to their technical soundness. To deal with this latter aspect, a more elaborate procedure than that which your Committee has so far suggested, is indispensable, as proposed in paragraph (3).

(6) In order to economise the small amount of time available, I am dispatching this letter to you by hand, and should much value your reply, if possible, within twenty-four hours.

Yours faithfully,  
(Sgd.) C. H. DOUGLAS.

Dominion of New Zealand,  
Government Monetary Committee,  
Parliament Buildings,  
Wellington, N.Z.  
19<sup>th</sup> February, 1934.

Major C. H. Douglas,  
Fifth Floor,  
Evening Post Building,  
Willis Street,  
Wellington.

Dear Sir.

I have to acknowledge the receipt of your letter of the 19<sup>th</sup> instant; and in reply I am directed by the Chairman of the Committee to thank you for your offer to assist, and to express his regret that your engagements may prevent you from devoting more time to the subject-matter of the enquiry.

As set out in the Order of Reference, the Committee was appointed to consider any proposals for the reform or improvement of the monetary system that may be placed before it. Incidental to the making of a case for any such alteration, it would presumably be necessary to expose the weaknesses in the system at present in operation. Thus answering your second question first, I am directed to assure you that the Committee will not exclude all criticism of the existing system and will undertake such investigations or call such evidence as may be considered necessary to examine any proposals for improvement.

The Committee, of course, cannot approach its work with other than an open mind and obviously cannot prejudge any issue nor at this juncture make any statement in respect of the existing monetary system or of any proposed system while the matter is *sub judice*. This answers your first question. The Committee are certainly not precluded from taking a favourable view of any proposal which is shown to offer advantages over the present system.

Further, I may add that if at all necessary, the Committee may co-opt further expert assistance, and no obstacles will be placed in the way of making the enquiry as full and complete as possible. It is felt, however, that any enquiry into monetary systems applicable to New Zealand should be held within the Dominion, and not, as you propose, in London.

In view of the fact that time does not permit you to assist at an enquiry in Wellington, the Committee are prepared to meet you by endeavouring to arrange a hearing in any other part of New Zealand and at any time which may suit your convenience. In the meantime, could you submit to the Committee the suggestions referred to in your letter in order that they may give them full study before meeting you.

Yours faithfully,  
(Sgd.) W. B. SUTCH, for the Secretary.

21<sup>st</sup> February, 1934.  
The Secretary,  
Government Monetary Committee,  
Parliament Buildings,  
Wellington

Dear Sir,

I have to acknowledge receipt of your letter of the 19<sup>th</sup> instant and to thank you for the information contained therein.

(1) From your letter I gather that you regard the proposition put forward in Paragraph 4 (a) of my letter of the same date as still *sub judice*, to which attitude I cannot, of course take exception. It will, I feel sure, commend itself to you that it is necessary to establish the facts of the situation before proceeding at any length to put forward proposals which, to have any value, must be relevant to the facts. I should prefer, therefore, with your permission, to await the publication of your conclusions in regard to the existing Financial System before taking up your time with the consideration of more far-reaching proposals which assume that fundamental defects have been exposed.

[Page 4]

(2) I am therefore attaching certain Proposals in outline, based upon the working of the monetary system in its present form which for these purposes is assumed (without admitting such to be the case) to be self-liquidating. This involves the assumption that sufficient purchasing power exists at any time to buy the goods which are for sale, at prices which are reasonably remunerative to those concerned in their production and sale. Any observed defects in the industrial, social and economic systems are, under this hypothesis, due to maldistribution of a sufficient quantity of purchasing power.

(3) For the purposes of reference, I would tabulate the major observed defects as follows:

- (a) Surplus (unpurchasable) production, (i.e.) Goods in excess of purchasing power;
- (b) Consequent "unemployment," (i.e.) Surplus productive capacity;
- (c) Consequent "poverty," (i.e.) Lack of purchasing power, accompanied by economic need;
- (d) Redundant industrial machinery and plant, (i.e.) Surplus productive capacity in relation to purchasing power available;
- (e) Consequent cut-throat competition to sell, (i.e.) To exchange goods for purchasing power;
- (f) Disappearance of industrial profits, (Expressed in purchasing power);

(g) Consequent business and industrial depression and failure (bankruptcies, etc.);

(h) Competition for foreign (export) markets to offset failure of home markets. (i.e.) Pressure to export real values for purchasing power;

(i) Consequent international friction, threatening and ultimately leading to war.

It is possibly superfluous to observe that the attached Proposals do not deal comprehensively with these defects, which in my opinion result primarily from a radically defective conception of the proper function and ownership of "financial credit."

(4) I would repeat my desire to render any further assistance to your Committee on the basis of ascertained fact, coupled with a statement of objectives to be attained, and I shall welcome any correspondence addressed to me in London for the purpose of proceeding further along the lines suggested.

(5) I am holding myself at your disposal from 9 a.m. to 1 p.m. on Saturday morning, the 24<sup>th</sup> instant, here in Wellington, for the purpose of elucidating any points in the attached Proposals on which you desire further information.

I am,  
Yours very faithfully,  
(Sgd.) C. H. DOUGLAS.

#### PROPOSALS REFERRED TO IN MY LETTER OF EVEN DATE.

(I) From the enactment of these proposals the Bank in New Zealand shall distribute a dividend either in or outside New Zealand in respect of operations carried on within the Dominion, of more than six per cent (6%) per annum on the subscribed capital.

(II) No Bank shall increase its capital in such a manner as to affect the gross amount of dividend distributed in respect to business carried on in New Zealand except with the consent and through the agency of a legal enactment of the Dominion Legislature. Within three months from the enactment of these proposals, every Bank operating in New Zealand shall make an exact return of its assets, specifying in particular all stocks, shares and debentures purchased by the Bank, the prices paid, and the prices at which such stocks, shares and debentures are held on the books of the Bank for the purpose of the annual balance-sheet.

The same procedure shall be adopted in regard to all real estate, buildings, and all other immovable property, together with furniture, fittings, and appliances in the Banks' ownership. Such statement shall include a sworn valuation of the current market value of all such assets at the date of the return, such valuation to be made by an independent surveyor or valuer.

(III) Where it is found that the figure at which such assets are held on the books of the Bank for balance-sheet purposes is

lower than the market value as obtained by the sworn valuation, all amount equal to such difference shall be transferred to an account to be known as "Suspense Account No. 1." Where the Bank in question operates in other countries than New Zealand, a complete return shall be rendered and a proportionate allowance for external business shall be made.

(IV) All profits earned by the Bank from any source over and above the amount necessary to pay a dividend of 6 per cent. shall be transferred to an account to be known as "Suspense Account No. 2."

(V) Six months from the enactment of these proposals an amount equal to 50 per cent. of the amount standing to the credit of Suspense Account No. 1 shall be applied to a reduction of the overdrafts debited to the customers of the Bank, such appropriations being made *pro rata* on the basis of the average overdraft of the Banks' customers for a period of three years preceding the date of the enactment of these proposals, and such appropriation of half the balance of this Account shall be made annually thereafter.

(VI) One month after the publication of the annual balance of any Bank, an amount equal to seventy-five (75%) of the amount standing to the credit of Suspense Account No. 2 shall be applied to the reduction or reimbursement of interest

[Page 5]

paid on overdrafts by the Banks' customers, such reduction or reimbursement being made upon the same *pro rata* basis as that laid down in paragraph V.

(VII) A similar procedure to that laid down in the preceding paragraphs shall be applied to the accounts and assets of all Insurance Companies operating in the Dominion, with the exception that the funds required for (Insurance) Suspense Account No. 1 shall be provided by rediscounting the disclosed reserve with the New Zealand Reserve Bank, and that the disposition of the funds so provided shall be as in the following paragraph:

Fifty per cent. (50%) of the amount to the credit of (Insurance) Suspense Account No. 1 shall be applied annually to pay for preference shares or debenture stocks applied for by any natural-born New Zealand subject over twenty-one years of age, to the extent that applications for shares to be paid for by this fund can be met. Such shares shall be allotted *pro rata* to the applicants without charge, and shall be registered as non-transferable and as not good security for loans. On the death of a holder, or his permanent residence outside the Dominion, such shares shall be cancelled.

(VIII) (Insurance) Suspense Account No. 2 shall be retained as a Dividend Equalisation Fund to ensure that the dividend on all preference and debenture stocks allotted under the preceding clause shall receive a dividend at the agreed rates. Should this fund increase at a rate exceeding five per cent. (5%) per annum, such excess shall be allotted to a *pro rata* increase in the dividend on such shares as have been subscribed for under

Clause VII.

(IX) These proposals are intended for consideration in the light of the correspondence which precedes and accompanies them.

# NOTES OF EVIDENCE GIVEN BEFORE THE GOVERNMENT MONETARY COMMITTEE

On Saturday, 24th February, 1934, at Wellington.

Present: Members of the Committee—Messrs. J. A. Nash (Chairman), Downie, Stewart, Massey, Lye, Clinkard, Holland, Langstone, Schramm, Murdoch, Munro and Rushworth.

Secretariat: Messrs. Sutch and Ashwin.

Witness: **Major C. H. Douglas.**

**The Chairman:** I am sure it is a very great pleasure to us this morning to be privileged to welcome Major Douglas at this meeting. We look upon him as a very distinguished visitor and one who has spent many years studying the question of social credit and purchasing power, and all other monetary matters, and coming as he has done to New Zealand on this occasion and the Committee having been set up as the result of petitions that were forwarded to Parliament asking that the present monetary system should be considered, it is fortunate that his visit has taken place during the Committee's investigations. Unfortunately for us, from the correspondence that we have had from Major Douglas, while he has suggested that he could evolve a plan for New Zealand he unfortunately finds himself in the position that there would not be sufficient time during his present visit and he has made certain proposals to the Committee for their consideration. However, I would even say now at this late stage that if Major Douglas finds that after having met the Committee this morning and given his views in accordance with what he has submitted to us, that he can elaborate his proposals still further, the Committee is prepared to meet him at his own convenience and in any other part of New Zealand. However, that is a matter entirely for Major Douglas, if he can see his way to do that. However, we welcome Major Douglas to New Zealand and are pleased to see him with us this morning, and we sincerely trust that as a visitor to our Dominion he will be able to leave it with pleasant recollections of the people he has met here. Major Douglas has already submitted certain proposals to the Committee and we would like him to elaborate them.

**Major Douglas:** I will elaborate my proposals if you would like me to do so. I am very grateful for your kind words and my one desire is to help you.

**The Chairman:** I think it would be preferable for you to speak first and we will then take the opportunity of asking you any questions.

**Major Douglas:** The proposals that I have had the honor of submitting to this Committee are the result of many years training. I have not previously gone further than what I may call the ascertained facts of the position. One feels very strongly in regard to these matters and it is desirable to say that there is nothing in these proposals which I have for the moment put

forward which traverses anything which is generally accepted in the existing financial system. There is not underlying these proposals anything controversial in regard to the existing financial system. I do not myself, of course, agree with the contentions of those who support the existing financial system, but in order that one may proceed from what one might call the accepted state, I have put forward certain proposals and with the permission of the Committee I will read them out. I might mention that these proposals are based on the ascertained facts at the present time.

[Page 6]

## "PROPOSALS REFERRED TO IN MY LETTER OF EVEN DATE."

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II.—No Bank shall increase its capital in such a manner as to affect the gross amount of dividend distributed in respect to business carried on in New Zealand, except with the consent and through the agency of a legal enactment of the Dominion Legislature. Within three months from the enactment of these proposals, every Bank operating in New Zealand shall make an exact return of its assets, specifying in particular all stocks, shares, and debentures purchased by the Bank, the prices paid, and the prices at which such stocks, shares and debentures are held on the books of the Bank for the purpose of the annual balance-sheet.

The same procedure shall be adopted in regard to all real estate, buildings, and all other immovable property together with furniture, fittings, and appliances in the Banks' ownership. Such statement shall include a sworn valuation of the current market value of all such assets at the date of the return, such valuation to be made by an independent surveyor or valuer.

III.—Where it is found that the figure at which such assets are held on the books of the Bank for balance-sheet purposes is lower than the market value as obtained by the sworn valuation, an amount equal to such difference shall be transferred to an account to be known as "Suspense Account No. 1." Where the Bank in question operates in other countries than New Zealand, a complete return shall be rendered and a proportionate allowance for external business shall be made.

IV.—All profits earned by the Bank from any source over and above the amount necessary to pay a dividend of six per cent. shall be transferred to an account to be known as "Suspense Account No. 2."

V.—Six months from the enactment of these proposals an amount equal to 50 per cent. of the amount standing to the credit of Suspense Account No. 1 shall be applied to a reduction of the overdrafts debited to the customers of the

Bank, such appropriations being made *pro rata* on the basis of the average overdraft of the Banks' customers for a period of three years preceding the date of the enactment of these proposals, and such appropriation of half the balance of this Account shall be made annually thereafter.

VI.—One month after the publication of the annual balance-sheet of any Bank, an amount equal to seventy-five per cent. (75%) of the amount standing to the credit of Suspense Account No. 2 shall be applied to the reduction or re-imburement of interest paid on overdrafts by the Banks' customers, such reduction or re-imburement being made upon the same *pro rata* basis as that laid down in paragraph V.

VII.—A similar procedure to that laid down in the preceding paragraphs shall be applied to the accounts and assets of all Insurance Companies operating in the Dominion, with the exception that the funds required for (Insurance) Suspense Account No. 1 shall be provided by rediscounting the disclosed reserve with the New Zealand Reserve Bank and that the disposition of the funds so provided shall be as in the following paragraph:—

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VIII.—(Insurance) Suspense Account No. 2 shall be retained as a Dividend Equalisation Fund to ensure that the dividend on all preference and debenture stocks allotted under the preceding clause shall receive a dividend at the agreed rates. Should this fund increase at a rate exceeding five per cent. (5%) per annum such excess shall be allotted to a *pro rata* increase in the dividend on such shares as have been subscribed for under Clause VII.

IX.—These proposals are intended for consideration in the light of the correspondence which preceded and accompanies them.

**Major Douglas:** That correspondence is, of course, merely an illustration of the suggestions which I put forward. The idea behind these proposals is this. It is extremely probable, we may say, that there is a remarkably large difference between the disclosed assets of financial institutions and the market value of those assets. I do not want to enter into the grounds of speculation and therefore I will not offer any figures as to what that difference is likely to be. That difference between the disclosed value of such assets and the real value of those assets if they were marketed according to ordinary business principles, that is to say, not all put upon the market at once, represents the physical basis for a creation of credit. That creation of credit cannot, think, by any process, either logic or ethics, or what is perhaps even more important still, practically speaking, be regarded as anything but the property of the general public. These proposals are intended to monetise the concealed

reserves without traversing the existing financial system.

[Page 7]

They are not so far reaching as to deal with the whole of the difficulties which do arise in our opinion out of the existing financial system, but I have no doubt whatever that they will form a very considerable mitigation in New Zealand of the difficulties which arise from that system. Now, the idea in practical form is that this monetised reserve shall be applied by methods which are quite orthodox and known by bankers and other people familiar with financial processes to wipe off the overdrafts of the general community on a *pro rata* basis, that being done in accordance with the well-known principle that the repayment of a bank loan is the destruction of the deposit, that is to say, that the money which was created in this way by the monetisation of these reserves would be destroyed or retarded by being applied to the repayment of an overdraft. The second provision is that any excess profits over the 6 per cent., which incidentally is the dividend paid by the Bank of England, therefore is the rate of payment of dividend which has a well-known precedent, should be applied to the reimbursement of those people who have provided, at any rate, one source of that excess dividend—people who have paid interest on an overdraft. That is merely a reimbursement of an excess earning on dividends. In regard to the Insurance Account, Suspense Account No. 1, the idea behind the monetization of the reserve is the same. The application of it to the payment for the allocation of shares on what you might call public funds is, of course, novel, but it does not in any way traverse existing canons of finance. The practical result of that allocation of shares is to provide or allow for, or make preparation for, the distribution to the general public of a national dividend without the nationalisation of the industry. That is to say, that you have in this way a participation by the general public in all the benefits of shareholding allotted to a national source without any interference with the private initiative of the concerns involved, other than those which are involved in share ownership, and so far as preference shares and debentures are concerned, it is a well-known fact that so long as the preference shareholder or debenture shareholder gets his interest he has no say in the management of the concern and in order that he shall get his interest the dividend equalisation fund provided in Suspense Account No. 2 is provided. In that way, you provide an increasing interest, a most definite gain by the whole population in the industries, and the progress of the economic development of the country. It will be small at first; it will increase later. I hope that by the adoption of other far-reaching proposals at a later stage it will increase very much more rapidly, very much further, but the essential point I should like to make is that there is no interference with the actual management of those concerns which are, in our opinion, involved, but what is involved is that the general population obtains an interest in the prosperity and also more purchasing power with which to absorb production. Those, gentlemen, are my main points.

**The Chairman:** We now have the privilege of asking Major Douglas any questions.

**Mr. Holland:** This question is a very big one to grasp at the

moment and ask intelligent questions, but I would like to ask this. The proposal allows the Bank a dividend of 6 per cent., which seems quite reasonable, but in years of stress and difficulties if the Banks or Insurance Companies make no dividend, what would happen if they had no Reserve Fund?

**Major Douglas:** I find it extremely difficult to imagine any circumstances under which that would occur if we knew what the accounts of financial institutions really represent.

**Mr. Holland:** Then if this proposal is a good thing for the Banks and Insurance Companies, why not make it cover the whole of the mercantile community paying over 6%?

**Major Douglas:** That is quite easily answered. The ordinary mercantile community, the ordinary producing community, produces goods and services; it provides the real wealth of the country. The financial institutions of the country merely produce a somewhat erratic number of units which we call monetary units which the producing community scrambles for. It is not the profits by the producing community wherein the difficulty lies; it is in the manipulation of the production of monetary units wherein the difficulty lies.

**Mr. Holland:** In this country we are suffering from an economic depression and it is commonly known that we are suffering severely in consequence. How can that be remedied in a land of plenty, and we have a land of plenty, and yet there is poverty and stress everywhere. Can you suggest a remedy?

**Major Douglas:** This scheme of mine is the beginning of the remedy.

**Mr. Holland:** I am not just clear on the point, but this is all information. Suppose a man wants to purchase an article for 15/- and only has 10/- in his possession. Would your scheme deal with him?

**Major Douglas:** This particular proposition under discussion is specifically stated not to traverse the existing financial system and therefore it cannot deal with the ordinary matter of prices. There is no provision in this scheme dealing with prices. The idea I have at the back of my mind is that if you can proceed along these lines you will yourself see the necessity of dealing with the price problem, but I do not want to force that on you. This is simply a preliminary suggestion which does not traverse anything which would not be accepted as perfectly orthodox by any authority on the subject.

**Mr. Holland:** I understand that no scheme can be devised which will meet the requirements of the all world. Each country must have a scheme of its own, is that so?

**Major Douglas:** No. I should not agree with that. I think that there is a desirable difference between the application of certain underlying principles to a comparatively new country, such as New Zealand, with very largely undeveloped resources, as compared with an old settled country like Great Britain, but the underlying principles

of any scheme would be satisfactory to both of them—as to principle the same; the application would be slightly different.

**Mr. Holland:** In your written statement to the Committee you mention that if you were residing in England and were asked to build a bridge in New Zealand, you would have to come to New Zealand to study the conditions and prepare all the details. Do I understand that to apply to the monetary system?

**Major Douglas:** Not to the monetary system but to the conditions under which the monetary system operates. I have quite clear views on the monetary system, but the application of those ideas and the principles underlying them to an undeveloped country and an old settled country is, I think, capable of adjustment. That goes into the range of politics rather than economics. It is quite justifiable, within my view of the problem, to have slightly different applications in different parts of the world.

**Mr. Holland:** Referring to my previous question regarding helping the man who has only got 10/- and wants to purchase an article which costs 15/-. I understand from correspondence I have had with supporters of the scheme that this scheme would help that man to get that article.

**Major Douglas:** What it does straight away if my scheme were put into operation would be to give him a little more than 10/-, perhaps only very little and indirectly it makes his 10/- buy more because by reducing the out-of-pocket expenses of the producer, by reducing his overdraft, reducing the amount he has to pay interest on his overdraft, and reimbursing him in regard to interest he has already paid, it should enable him to charge lower prices. If it does not enable that, then you will have to give effect to the second part of my scheme.

**Mr. Langstone:** Yes. I will follow up that question; suppose a man never paid any interest and never had a bank overdraft, how would he benefit?

**Major Douglas:** He will apply for a proportion of the shares of every new issue of preference or debenture shares issued in New Zealand and he will get a *pro rata* allocation of those shares for nothing.

**Mr. Langstone:** It would be some time before they were issued; it would not immediately affect his 15/-?

**Major Douglas:** It would not affect it this week.

**Mr. Langstone:** In the next two or three months?

**Major Douglas:** In order to affect him at once, you will have to traverse the whole of the tenets of the existing financial system.

**Mr. Langstone:** I would like to ask you this; is not price the keystone or the determining factor of all?

**Major Douglas:** Yes.

**Mr. Langstone:** Therefore in formulating any scheme you

must have some definite form of price level or price fixation?

**Major Douglas:** Agreed. You are now asking me questions which I am answering in accordance with my own beliefs, not in accordance with the existing financial system.

**Mr. Langstone:** This Committee can consider things not just in line with the present financial system; we can discuss or get information on all proposed remedies for the defects and errors of the present financial system.

**Major Douglas:** I feel confident—if you will let me put it that way—I feel confident from my own experience that no specific results are likely to accrue from that cause. We almost immediately get into a maze of statements as to the positive fact. I might very rapidly say a number of things which would immediately be contradicted by traversing the existing financial system as it works at the present time. In order to proceed any distance along these lines it is necessary to establish the facts, and in order to do that I feel sure that only one thing will apply and that is an enquiry at which witnesses are produced and the matter is thrashed out, and the fact that I say such-and-such is so, does not, I think, carry necessarily any weight, and therefore I am trying not to say anything which will carry any expression of opinion.

**Mr. Langstone:** You talk of the subscribed capital of a Bank; you mean the paid-up capital?

**Major Douglas:** I should not quibble over details of that sort. The subscribed capital or paid-up capital is so very small in the average Bank in comparison with its operations that the difference is very slight.

**Mr. Langstone:** One other question follows on: We will take the disclosed secret reserves of the banks and will assume it is £1,000,000. You are going to distribute £500,000 the first year. Then half every succeeding year until it "peters out." How is that going to increase? You said they would increase their share. Seeing that the amount is a diminishing quantity each year, how would it increase the purchasing power of the people generally, or their interests in the community?

**Major Douglas:** The first comment I should make on that is that I should not judge these proposals on the assumption that there is only £1,000,000.

**Mr. Langstone:** Make the figure anything you like—£10,000,000. If it is only a figure, then we will say £1,000,000.

**Major Douglas:** The answer is that if it is true, as I believe it to be true, that under the existing financial system the whole property of the country will inevitably pass into the possession of the banks either directly or by lien, then there is a constant stream of properties under these conditions passing into the hands of the banks, and that will keep up the strength. The whole of the property of the country will be handed to the banks but the difference between the disclosed and real reserves has already been distributed in form of a financial lien on the property, so that the country will gain.

**Mr. Langstone:** One other question I would like to ask: Does the volume of various classes of goods

[Page 9]

in existence determine the variation of price between those various commodities? There may be an alteration in price between boots and clothing, for instance—an alteration in prices so that one becomes more valuable and the other less valuable in relation with one another.

**Major Douglas:** The answer to that depends entirely upon what you might call a question of relationship of cost and price. If you take the assumption of the existing financial system—that the price of an article is what it will fetch—then quite obviously it is true to say that the price of an article varies with the quantity produced, and directly there is a scarcity, the price is raised.

**Mr. Langstone:** Following on that, then, the money and quantity factors determine the general level of prices for everything?

**Major Douglas:** Not necessarily; the general level of prices can be varied, not according to the absolute quantity of goods produced—that is correct; but by the application of that, it is possible to apply the creation of credit to a reduction of price.

**Mr. Langstone:** In your opinion, what percentage of the money or credit which we have and can use in the community originates by way of bank loans in one form or another?

**Major Douglas:** I think that is matter which is capable of very easy statistical proof. There is only one form of money which is not bank loan, and that is currency, absolute legal tender, and the ratio of legal tender in Great Britain (I am quoting very loosely from memory) is somewhere in the neighbourhood of £350 millions all told, and the Bank clearing of Great Britain *per annum* is around £39 thousand millions. These figures are, of course, subject to correction, and are not exact.

**Mr. Langstone:** I was coming to that point; seeing that wool has gone up in price in New Zealand, I do not know whether I am right in this contention. Assuming that a Japanese buyer wants to buy wool; he sells £10,000 worth of goods in London and gets credit there. He sells that credit to one of the New Zealand Banks guaranteed by our Government. Then he has a credit of £10,000 but he wants to buy wool in New Zealand. He is able to buy £12,500 of wool owing to our 25 per cent. exchange rate. If I am his buyer, I land in New Zealand with a letter of credit indicating that I am to purchase that amount of wool at any price I like to give for it per pound. There have been no goods or money sent to New Zealand, then who provides the money for the price that has been paid for the increase of the price of wool in New Zealand?

**Major Douglas:**

That is really outside the scheme I have put to you this morning. I could give you a snap answer; if you want a serious answer I will need notice. The orthodox answer is that his firm establishes a credit in New Zealand which exchanges into that credit in London.

**Mr. Langstone:** It is admitted by bankers themselves, or by anybody who studies the banking question that bankers do create money and that they destroy money, and it is the destruction of the money that is the cause of a great many of our difficulties today.

**Major Douglas:** I think that way of putting the matter, while very important, has been over-rated. The fundamental factor—I am asking for the indulgence of the Chairman for going outside my brief—is the fact that the actual creation of the money takes place at the point, as you might say, which is not that of the creation of the goods, and the creation of the money is regarded as exactly as the creation of wealth is regarded on the opposite side of the ledger, and therefore when a Bank issues this money and lends it, it is plain that the wealth is created. It is quite true that the actual purchasing power is destroyed, but the fact is that it creates a thing which at any rate in the eyes of the public is equivalent to actual wealth, and it is creating that at a point which is not the same as the point where the actual wealth it claims to represent is created, so that you have what is in effect a double entry system which should in that conception be only a single entry. For instance, as I have very often given as a very simple illustration; if I own a railway company and someone entirely unconnected with me sets up a ticket office and sells tickets which will be accepted as good tickets for the seats on my railway, then quite obviously for all practical purposes, for the purpose of controlling the transportation on that railway, and for every other purpose, it is the ticket office which has got control of the railway. That is exactly the position of the monetary system in relation to the whole business; an actual service which is a physical system of actually turning something into something else. The ticket system is something else again, and it is plain it is the property of the people who purchase the tickets, and that is, I think, proved beyond discussion from the fact that they make their claim on the ground that you can get tickets.

**Mr. Langstone:** In other words they are getting money wealth, but no values are produced?

**Major Douglas:** Certainly, if we did not agree that that was the scheme under which we were to pay.

**Mr. Schramm:** How would the wage-earner, under the scheme suggested, get the preference or debenture shares?

**Major Douglas:** He gets those on their being allotted to him on his application, and paid for out of this fund which is created by Suspense Account No. 1 derived from the hidden reserves.

**Mr. Schramm:** And if there were no funds credited to this Suspense Account, he would not get the shares?

**Major Douglas:** I think you might safely leave that question until you discovered what the reserves were.

**Mr. Schramm:** But if there were no reserves?

**Major Douglas:** You would get no shares.

**Mr. Schramm:** If there were reserves, you would have a provision whereby all those wage-earners would get preference shares?

**Major Douglas:** Or debentures, yes. Perhaps it would clarify in your minds what I have in mind if I explained further.

**Mr. Schramm:** What I am really interested in is: if a

[Page 10]

scheme can operate for any banking company in the world whereby the wage-earner can go along and out of the Suspense Account be allotted shares for which he has not paid.

**Major Douglas:** He has paid, but not in money.

**Mr. Schramm:** You mean the Suspense Account has paid?

**Major Douglas:** The Suspense Account has paid for the shares in money, but he has or his predecessors have paid by creating the values which these shares refer to.

**Mr. Schramm:** I suppose your scheme would apply to all banks functioning? Would you outline the scheme governing the issue of the shares; what sort of a legal effect would it have, governing the issue of these preference shares to workers whereby they themselves would be paid the value?

**Major Douglas:** I do not see anything in that question which is not provided for in this scheme.

**Mr. Schramm:** The present banking system is governed by the present banking laws; you would have to alter them so as to allow them to get these preference shares.

**Major Douglas:** You would simply carry out the proposals which are bid down in that scheme.

**Mr. Schramm:** You would have to alter the present banking law which makes no provision whereby preference shares can be allotted to workers and payment made out of a Suspense Account.

**Major Douglas:** You have to create a Suspense Account in the same way as you have to limit to 6 per cent. That is provided for in the scheme; there is nothing which traverses the existing financial system as a system.

**Mr. Schramm:** I do not see how you can do it, seeing these banks are governed by regulations. You would have to come to Parliament and have a special law passed altering the provisions governing these various banks before you can issue those shares to workers.

**Major Douglas:** You would quite obviously have to use some supreme authority to the banks which would insist that these provisions be carried out. I am not suggesting that you immediately put into operation but presumably you want to get something done.

**Mr. Schramm:** You would have a tremendous rumpus with the banking authorities if you put the scheme into operation.

**Major Douglas:** I am suggesting that this is a way to have that rumpus.

**Mr. Schramm:** To give the workers the shares out of Suspense Account?

**Major Douglas:** Yes.

**Mr. Schramm:** There are 75,000 unemployed in New Zealand: can you tell the Committee in what way those 75,000 unemployed would reap any material immediate benefit from your present scheme?

**Major Douglas:** Yes, they would reap this benefit from this present scheme; that a large number of business concerns which are now on the verge of bankruptcy as a direct result of having overdrafts and having to pay large sums of interest on these overdrafts would be prevented from going into bankruptcy and would be able to carry on, and would see their way to carry on still better and as a result they would probably provide more employment and in that way some proportion of the 75,000 unemployed would become employed.

You clearly understand that it is not in my opinion the direct objective of the industrial system to provide employment. The proper objective of the industrial system is to provide boots and clothing, but this scheme is simply based on the existing ideas of the financial system and to the extent that it is possible under the existing financial system to benefit any section of the community I believe it does. To say that it does not completely deal with the situation is entirely true. What I say is that the only way to deal completely with that situation is to traverse the tenets of the existing financial system.

**Mr. Schramm:** Would you allow the present banking system of private ownership and control to carry on, subject to what you put forward?

**Major Douglas:** Subject to the putting into operation of this particular scheme?

**Mr. Schramm:** Yes.

**Major Douglas:** I have very little doubt that the putting into operation of this particular scheme would disclose the necessity of acting further. It would be action upon lines which would disclose the necessity of going forward, but in my fixed plan, however far you go does not necessarily involve the interference with the existing administration or business either of banking business or of any other form of productive business. The only thing which will force the necessity of that, in my opinion, my own studied opinion, is that the administrators of existing business go outside their proper functions and interfere with the conditions under which the product which they produce and the administration and production in which they are in control, is

distributed. The actual administration under private ownership of existing business, in my opinion, is at least equal to that under public. The question of the distribution of what is produced is an entirely separate problem and is almost purely a financial and not an administrative one.

**Mr. Schramm:** You do not agree that the banking system is breaking down?

**Major Douglas:** Yes, I do.

**Mr. Schramm:** Well, if it is breaking down, there must be something wrong in it?

**Major Douglas:** There is.

**Mr. Schramm:** If there is something wrong in it, seeing that finance and banking are the core of the system, you should alter and change it completely?

**Major Douglas:** I do not agree. I should suggest that the actual production system with its administration has produced wealth. There is nothing in the existing production system to suggest that it has failed to produce wealth. On the contrary, in practically every country in the world except Russia there is a surplus of actual wealth which is being exhibited in the form of productive capacity shut down and many other things of that kind. As a producing system the system has been admirably successful. What is breaking down is the method by which the things which the producing system can and does produce get over to the public who have a need for them; that is entirely a question of distribution and distribution is entirely a ques-

[Page 11]

tion of finance and has nothing to do with administration.

**Mr. Schramm:** That is your opinion?

**Major Douglas:** Yes.

**Mr. Schramm:** In connection with the shares in the Bank: there will be nothing to stop anyone trading or dealing with their shares, or putting them on the Stock Exchange?

**Major Douglas:** There is a clause in the scheme to prevent that.

**Mr. Schramm:** The ordinary shares?

**Major Douglas:** Not the ordinary banking shares.

**Mr. Schramm:** Under the present scheme of yours, is there anything to stop the ordinary holders of shares in Banks dealing with them?

**Major Douglas:** Nothing whatever.

**Mr. Schramm:** And they are guaranteed at 6 per cent.

**Major Douglas:** Well, no, they are not guaranteed at 6 per cent., but limited to 6 per cent.

**Mr. Schramm:** Is there anything to stop private individuals who have shares from being allotted shares?

**Major Douglas:** There should be nothing to stop them. I do not know what the capital of the New Zealand Banks is but the total capital of the British Banks is very small. Of course, as I need hardly tell a Committee of this kind, a Bank hardly needs to have any capital at all.

**Mr. Munro:** I have only one question, Mr. Chairman. Presuming the scheme outlined by Major Douglas today was introduced at once—I mean with the present low price level for shares in banking and so on—there would be very little in excess of the original share value. What benefit would it be? What I mean is this; with the present competitive prices, the undisclosed wealth of these particular Banks and Insurance Companies, the possibility is that today if that was capitalised by value as suggested in your scheme there would be very little for distribution directly or indirectly to the public?

**Major Douglas:** I think that if the valuation is properly carried out that is most unlikely to be the case.

**Mr. Munro:** You mention, of course, buildings and assets of the banking companies, presumably shares, and all that sort of thing. All these things are at a very low price level today and you think that there would be very little difference on that account in the scheme as proposed here?

**Major Douglas:** I do not think it would make any considerable difference to the scheme. I am so confident that banks as operated at the present time either make very large disclosed profits or make a very large undisclosed profit and by having both ends of the stick you are bound to get hold of a very large profit sometime, but I have no doubt whatever that by dealing with both the dividend and the undisclosed reserves you will have something very considerable to distribute.

**Mr. Murdoch:** I take it from your remarks that you lay all the troubles of the world at the door of the Banks and Insurance Companies?

**Major Douglas:** I regard the Banks and Insurance Companies as being the main mechanisms of the financial system. I lay a very large amount—I should not like to say what percentage, but certainly a preponderating amount—of the trouble in the world at the present time at the door of the financial system and nowhere else.

**Mr. Murdoch:** You say that the Banks are mainly responsible?

**Major Douglas:** I should like to keep to the form of the

preceding answer that the banks and insurance companies are the chief mechanisms in the existing financial system and I lay most of the trouble in the world at the present time at the door of the financial system.

**Mr. Murdoch:** You think it is a fair thing to dip into the reserves and profits of these Banks and in a sense confiscate them?

**Major Douglas:** I do not think it is a question of confiscation at all. There is a Spanish proverb which says, "He who robs a robber earns a hundred years' remission," and I regard these undisclosed assets and many other assets as being quite unjustifiable.

**Mr. Murdoch:** Do you favour or object to the institution of the Reserve Bank?

**Major Douglas:** You would like my frank opinion?

**Mr. Murdoch:** Yes.

**Major Douglas:** I regard the prime objective of the institution of the Reserve Bank in New Zealand or anywhere else as being one move in a project to take the control of finance from out of the hands of the Government of the country in which it is carried on and to link it up with international financial systems.

**Mr. Murdoch:** Do I understand that these proposals are applicable to New Zealand only, or would you apply them to England?

**Major Douglas:** No. I should apply much more far reaching proposals to England.

**Mr. Murdoch:** Have you put a proposal such as this before the authorities in England?

**Major Douglas:** Not in that form.

**Mr. Murdoch:** Or any other countries? Have you tried them anywhere else?

**Major Douglas:** Do you mind if I suggest that that would be dealing with questions outside the present meeting.

**Mr. Murdoch:** You have very clear views on the monetary system, could you briefly expound them?

**Major Douglas:** You want a general sort of idea?

**Mr. Murdoch:** Yes.

**Major Douglas:** The idea which is underlined in the whole of my contentions is that a correct monetary system should be a reflection of facts, of physical facts. That is to say, that wealth does not consist in monetary tokens and cannot under any conditions exist in monetary tokens. A monetary system can powerfully, and does powerfully, affect either the production of

wealth or the distribution of wealth and impedes it because of the assumption that the production of wealth is conditioned by the accounting of it, so that if you have a condition of affairs such as you have at the present time you can have the condition which we consider does exist for which we have any amount of evidence in various ways, that you may have a world which is actually very wealthy from a physical point of view but you may have people who are so possessed by an erroneous idea of things that they will say the world is very poor and that only economies are possible; it is the only policy which can be pursued. From

[Page 12]

our viewpoint it is an obvious contradiction and we should say that it does not point to the fact that the world is poor but points to the fact that the accounting system does not reflect the facts. The first objective of anything in view is to make the accounting system reflect the facts. When it does reflect the facts we then say it is quite a legitimate object, or subject, for the exercise of sovereign policy as now normally exercised through the Government of the country as to what disposal shall be made of the ascertained wealth or the rate of production, which is a more accurate description of what goes on, but while you have a statement of facts in which you have an accounting system which suggests poverty and stringency, where you have a physical system which contradicts that statement you cannot get any further.

**Mr. Downie Stewart:** I am interested in the philosophy behind this proposal and I gather from what you said just now that you think the scheme justified because by it you are as you say robbing the robbers?

**Major Douglas:** Perhaps I should prefer to say that circumstances have put these organisations into a position in which, whether they have a conscious desire or not, they are in fact in the position of the recipients of unjustifiable wealth.

**Mr. Downie Stewart:** Have you not accepted in your own writing the fundamental principles of British and New Zealand systems of society, namely that you do not dispossess a man of his property without compensation?

**Major Douglas:** I am not proposing to dispossess any man.

**Mr. Downie Stewart:** Well, assuming that a small tradesman, a working man, or a widow bought a few shares at the present market prices based on the present dividend in the Bank of New Zealand. You are cutting their capital down by half, are you not, by cutting down the present dividend of, say, 15 per cent, to 6 per cent.

**Major Douglas:** As things are going on at present there is no possibility whatever of the present banking system continuing for any considerable length of time, even three, four or five years, without a complete catastrophe—complete breakdown of the existing system—and in that case I am not taking away anything from that man: I am preserving half of his capital

from ruin.

**Mr. Downie Stewart:** That is on the assumption that your view as to the future of the Banks is correct?

**Major Douglas:** The whole thing is based on my assumption of what really would happen to the banking system.

**Mr. Downie Stewart:** Then, in effect, that means confiscation whether you approve of the present system or not?

**Major Douglas:** No, it does not from my point of view. It will be quite possible for him to receive only 6 per cent. instead of 15 per cent. and if the price level were to fall by a proportionate amount he would be just as rich as he was before.

**Mr. Downie Stewart:** Take it from another angle. Are you aware that the Banks in New Zealand on either their subscribed capital or paid-up capital do not pay more than 6 or 7 per cent. now and their dividends are made up from the income from their reserves?

**Major Douglas:** If they do not pay more than 6 per cent. or 7 per cent. on the average now the shareholders are not hit and they cannot have any objection to disclosing their reserves.

**Mr. Downie Stewart:** Then no benefit accrues to the overdraft owners, or the people who are holding the overdraft. If, in point of fact, the dividend on shareholders' capital is not more than the amount, how are you going to limit it?

**Major Douglas:** If there are no undisclosed reserves . . .

**Mr. Downie Stewart:** You are not touching the dividends earned on the reserves at all?

**Major Douglas:** I am going to distribute the reserves, the undisclosed reserves.

**Mr. Downie Stewart:** The limitation of the dividend is 6 per cent. If it is at that rate now on capital (excluding reserves) the scheme falls to the ground before it starts?

**Major Douglas:** No, I cannot permit that. The undisclosed reserves of the Banks are appropriated to the reduction of the overdraft and in the main to producers, that is to say, farmers, to a very large extent.

**Mr. Downie Stewart:** But I am dealing with the dividend now. You limit the dividend to 6 per cent. Then you do not touch that part of the dividend which the shareholders received from the reserves at all as a dividend?

**Major Douglas:** Yes, I do, most certainly. They have now in England a provision which is part of the Company Law that you only distribute as dividends earned profits. If they are distributing dividends which are from concealed reserves they are breaking the law.

**Mr. Downie Stewart:** The object of the limitation of the dividend to 6 per cent. is to prevent the Banks from paying 12½ per cent. or 15 per cent. or whatever they are paying at present?

**Major Douglas:** May I re-phrase what you are saying for the purpose of answering? That the profits of Banks are partly distributed in the form of actual money dividends and they are partly put to disclosed and undisclosed reserves which are not represented by any money at all. They are represented by either correct or incorrect price values which are not represented in any way by money. You can monetise those price values at any time you like, particularly through the mechanism of the Banks.

I am sorry to say I am speaking specifically on the proposal to limit the dividend to 6 per cent. but in point of fact you are not limiting that part of the dividend that makes up the present dividend which the public consider excessive. You are limiting that dividend to what should be paid out in respect of the subscribed capital. If, in point of fact, only half the dividend is paid from that source so far as the limitation of the dividend is concerned, you have not touched the main point. If only half of it is paid, the other half comes from the reserves and those reserves are the essential features of the banking system.

**Mr. Downie Stewart:** Well, in other words, you say that the amount earned by the charges made for overdrafts

[Page 13]

represents only half of the Banks' dividend approximately, and the rest is monetisation by the methods of the banking system of the price values held by them as reserves.

**Major Douglas:** It arises as an ordinary investment. The Banks, in order to be secure, claim that they must have reserves about equal to the capital.

**Mr. Downie Stewart:** Then what you are saying really means that in order to pay half the dividend of the Bank, the Bank creates money to the extent of half the dividend on the basis of its disclosed or undisclosed reserves and pays that away as a dividend.

**Major Douglas:** That is your way of putting it: the popular way of putting it is that a Bank earns half its dividends from the ordinary business and half from the reserves.

**Mr. Downie Stewart:** Yes, but I am really wanting to establish a question of fact.

**Major Douglas:** Well, mine is a plain statement of fact. Half the dividend of the Banks is the creation of new money on the basis of disclosed and undisclosed reserves.

**Mr. Downie Stewart:** Well, that opens up the whole question of your theory as to banking, doesn't it? I do not want to do that

at this stage. You say it does not make any difference whether it is on the subscribed capital or the paid-up capital?

**Major Douglas:** No, but I think the question is very much wider than that. I am prepared to give you either you like.

**Mr. Downie Stewart:** You are, aware of course, that a great number of men trade on an overdraft for their own convenience, because they can make better use of the money—wealthy men—they would, share in this reduction the same as anyone else?

**Major Douglas:** I have no objection. This is not in any sense a class question. In my opinion everybody is almost equally hit by the present banking system, except the banker.

**Mr. Downie Stewart:** Assuming the case put by one member of the Committee that that amount that you are going to transfer to the Suspense Account is £1,000,000. Would it surprise you if you were told that it would not make a difference of more than one per cent. reduction in the overdraft altogether?

**Major Douglas:** That statement does not at the moment convey any very clear impression to my mind.

**Mr. Downie Stewart:** It is a question of fact; it depends on what the overdrafts of New Zealand are and what the reserves are.

**Major Douglas:** I defer to your superior knowledge of the actual situation. I should think it is extremely difficult for any person to say what the undisclosed reserves of the Banks are.

**Mr. Downie Stewart:** Take this further question. You are appropriating the difference between their book values and the market values as marketed under ordinary business conditions. What if the banks write up their assets to the market value, then there is nothing to appropriate?

**Major Douglas:** In that case they will have to show a dividend of several hundred per cent. which will immediately be appropriated. The writing up of your reserves will increase your profits.

**Mr. Downie Stewart:** No, why should it?

**Major Douglas:** They will put something to their assets in a given year which was not in the assets the year before.

**Mr. Downie Stewart:** You have no objection to writing up their values to what you call their market value?

**Major Douglas:** Not if one appropriates the difference between 5 per cent. and the value of what it ought to be.

**Mr. Downie Stewart:** It is not the dividend you are appropriating, it is the capital?

**Major Douglas:** Yes, but any increase of capital which is obtained from trading should be shown in the balance sheet as between December 31, 1933, and December 30, 1934, as a profit.

**Mr. Downie Stewart:** Do you mean to say that if your premises in Lambton Quay instead of appearing in the balance sheet as, say, £1,000, as they may have been written down to, appeared at £20,000 that they increased their earning capacity?

**Major Douglas:** Not at all, but if you show that in the balance sheet you would have a net profit of £19,000 in that year.

**Mr. Downie Stewart:** No. Then I am afraid I do not understand the meaning of a balance sheet. You say that this is a method of securing for the general public the property of the banks?

**Major Douglas:** No. May I make a more clear distinction on that point? I do not want to take the property of the banks or anyone else, so far as the administration is concerned. What I do want is to provide the public with the purchasing power which will enable them to use the production of those undertakings and in taking away the purchasing power from the banks I am not taking away their property.

**Mr. Downie Stewart:** No, but in explaining your scheme you suggested that this is part of a scheme for securing the property belonging to the public to the general public. When you were making your verbal statement I wrote down these words "This is the property of the general public."

**Major Douglas:** The property of the public, which is the only property it has, is in consumable goods, together with the right, in my opinion, to so direct the general assets of the community that they shall be supplied with the consumable goods that they require and which can be produced. That is not the same thing as taking away from the administrators of the capital assets of the country their powers of administration. What I am concerned with is that they shall so administer this property that the general public can get the goods which they produce.

**Mr. Downie Stewart:** My point was that you are purporting to secure to the general public, but in point of fact you are only giving it to those people who happen to have an overdraft at that Bank which is fluctuating. You are not securing it to the general public except in a very indirect way.

**Major Douglas:** In order to secure it for the general public it is necessary to take steps which go considerably beyond these. Those steps have to be based on the acceptance of propositions which do traverse the accepted propositions of the existing banking system. These proposals

are specifically said not to go as far as, in my opinion, one ought to go; they are preliminary proposals.

**Mr. Downie Stewart:** I find it difficult to come to grips on the question because of the statements you are now making. When you referred to it before you spoke of securing the property of the general public to the public and writing off the overdraft to the general community.

**Major Douglas:** Quite obviously every one of these phrases requires definition and my definition of the property of the general public may possibly not agree with the orthodox accepted statement and I should have to establish that and the way that I should want to establish it, if I were in a position to do so, would be that this is the way which will enable you to make the most practical use of those facilities which do physically exist.

**Mr. Downie Stewart:** Well, there is one other point. Dealing with Insurance Companies, I am not clear why this scheme is limited to Banks and Insurance companies. Take all the firms who take deposits from the public and who deal in credit which is drawn from the Banks for the use of the public—the stock and station agents, for instance—they go free, do they?

**Major Douglas:** Is that a local phrase?

**Mr. Downie Stewart:** They finance the farmers and make advances to them and generally they conduct a banking business within their own boundary.

**Major Douglas:** Where do they get their money from?

**Mr. Downie Stewart:** From the Banks partly.

**Major Douglas:** So that they are really agents for the Banks.

**Mr. Downie Stewart:** They are an enormous feature in New Zealand's economic life.

**Major Douglas:** As agents for the Banks.

**Mr. Downie Stewart:** Well, insofar as they are dependent on the Banks. They are not touched by the scheme at all.

**Major Douglas:** Well, the scheme put forward is a scheme in outline only. If it was generally considered that the people you mention ought to be brought within the range of this scheme I should have no objection.

**Mr. Downie Stewart:** You know the saying "A true test of every reformer is to make him reduce his proposals to the clauses of the bill." I am trying to see how it would appear if it were put into a bill. Take this question of insurance companies. You suggest that they should re-discount their reserves with the Reserve Bank. What is the actual effect of that? Assuming they have their money invested in mortgages due years and years hence, would it be proper business for the Reserve Bank to take every one of these more or less fixed securities over a long period in order to enable this dividend to be paid?

**Major Douglas:** Well, there are always two ways of approaching these things, perhaps three. The first is, has it been done; second, can it be done; and the third, is it desirable that it

should be done.

**Mr. Lye:** Should not the third come first?

**Major Douglas:** I think "Can it be done" should come first, perhaps "Is it desirable" second and "Has it been done" third. I think the answer in this case to all three is "yes." It can be done, obviously.

**Mr. Downie Stewart:** It is not the usual business for a Bank to do.

**Major Douglas:** It has been done and is being done in the United States at the present time, which is what is referred to as liquidating frozen assets and it is desirable that it should be done in order to give more purchasing power to the public.

**Mr. Downie Stewart:** Perhaps I should say that is a major policy of the Banks not to tie up their funds more than necessary, to keep them as liquid as possible and if you load on to them all of these long-term securities of the insurance companies that is a new feature of business altogether.

**Major Douglas:** You see, one is always met with these difficulties in regard to this matter that the banking system at the present time seems to oscillate between the suggestion that it is an ordinary business concerned with the sole object of making profits and that it is not an ordinary business concern but is identified with the general interests of the whole community. Now, if you take the second point of view, with which fundamentally I would agree, that it cannot be considered at all as an ordinary business simply concerned with making profits, the answer to your question is that it is desirable in the general interest that it should take on that business.

**Mr. Downie Stewart:** Yes, but take the question of mutual insurance where profits are distributed amongst the shareholders. Why should these those profits be appropriated for the benefit of other people?

**Major Douglas:** Even those concerns which are mutual and distributing their money profits do not distribute sufficient money from the fact that they have undisclosed reserves to monetize the whole of their value. The question is not a question of distributing actual physical property so much as providing sufficient purchasing power to enable a property to function as a producing concern.

**Mr. Downie Stewart:** Some businesses have accretions which will not be distributed for 50 years. Their business would be shot to pieces under this scheme.

**Major Douglas:** In saying that, you force me to break entirely fresh grounds. The whole idea of setting up reserves or even creating debts is completely unscientific. There is actually nothing in the physical circumstances under which the present world is worked which can be remotely associated with the word debt or the word reserve. The two ideas are completely separate. I began my remarks by saying that what we have to do in order to get out of this jam is to get the financial and accounting system to form a fairly close connection with the physical facts and the questions that you are bringing up really traverse the whole of that idea.

**Mr. Downie Stewart:** Let us suggest that, going back to the Banks

[Page 15]

again where they operate in other countries, there has got to be a proportion of allowance for external business; do you anticipate any difficulty in segregating the operations and assets of a Bank which is operating in both Australia and New Zealand?

**Major Douglas:** I do not think it is an insuperable difficulty by any means; it is not a difficulty which is out of proportion to the results obtained.

**Mr. Downie Stewart:** I only mentioned it because in assessing it for income tax we have found it so difficult to get a true distinction between the local earnings and the Australian branches. We may be able to assess on their capital without regard to any attempt to segregate the assets?

**Major Douglas:** That I think is very largely because somebody more or less connected with banking describes the Bank as an institution which shows a fraudulent balance sheet at the end of every year.

**Mr. Downie Stewart:** The general principle underlying this is that the Banks and Insurance Companies are in a peculiar position, but if it is that there are other agencies in New Zealand using what we call social credit, would the same principle apply to them all round?

**Major Douglas:** Where any institution directly affects the actual amount of monetary tokens or purchasing power at the disposal of the community, most certainly. The answer is "Yes."

**Mr. Downie Stewart:** You would not in any way compensate all those people who lose half their value in the operation of the scheme; I mean the shares of the Banks in New Zealand are held very widely by hundreds of people.

**Major Douglas:** Yes, I gave you, I think, two or three answers to that question, and I think I could give you two or three more, as a matter of fact, quite easily, but the question really does go deeper than that, and that is that at the moment we are discussing the question of altering or dealing with the monetary tokens which are involved in the existing financial system. Now it is perfectly true, and I accept it at once, that this is only dealing with half the question. The other half, and probably more important half, is the question of price, and the question of price of shares which you are discussing comes in there, too. But to deal with the question of price traverses the orthodox financial system and anything I say about that would simply be met by possibly a flat denial on the part of others, so that I think it comes into the proceedings at a later stage.

**Mr. Downie Stewart:** How are those native-born New Zealanders selected for the purpose of giving them the right to those new shares?

**Major Douglas:** On the basis of passport, over 21 years of age.

**Mr. Downie Stewart:** But I am assuming that there are hundreds of thousands of native-born New Zealanders; it would be a long while before every man had his share, would it not?

**Major Douglas:** That is so. You have involved in that proposal the opportunity to exercise a certain discretion. You may have an issue of preference shares in some undertaking and a man says, "Oh, no, I do not think so well of that," and he does not apply for them, and will apply for the next issue and so forth.

**Mr. Downie Stewart:** But assuming 20,000 people applied and there were only 10,000 shares to be issued?

**Major Douglas:** I should reduce the value of the shares and issue more shares.

**Mr. Downie Stewart:** To whatever number of applicants there were?

**Major Douglas:** If there originally £10 shares, I should probably make them £1, so as to have sufficient shares to distribute.

**Mr. Massey:** Following up on Hon. Mr. Downie Stewart's question, in your opinion do the Banks and Insurance Companies of New Zealand have a monopoly of credit in New Zealand?

**Major Douglas:** The complete answer to that, I think would require knowledge of the exact relationship between the Banks not trading solely in New Zealand and the other Banks and Treasury of New Zealand. That knowledge I do not wholly possess and anything that I should say in reply to that would have to be conditioned by want of knowledge as to the actual facts.

**Mr. Massey:** Under your proposal you say that you would value the assets and reserves of the Banks and of the Insurance Companies; how would they be valued?

**Major Douglas:** They would be valued where there are parallel assets of the value which is set against parallel asset, by which I mean, when you have 100 shares in A stock, those would be valued at a price which would be obtained for somebody else's 100 shares in A stock, assuming that large blocks of property are not thrown onto the market at the same time.

**Mr. Massey:** Then under your proposals, you would hand to the public 50 per cent. of the value of the assets?

**Major Douglas:** No. Evidently this is a matter which is not clear to you. You would hand to the public purchasing power equal to, in this case, 50 per cent. of the un-monetized value of those assets. It is not handing over those assets to the public; it is increasing the amount of money which the public have at their disposal by the amount of an undisclosed reserve which is under that condition only reaped by a price value and not by purchasing power.

**Mr. Massey:** When it comes to the question of valuation in view of the fact that we are an exporting country and actually are compelled to accept a price level of the world for what we export, do you not consider the price level should have a direct bearing on valuation?

**Major Douglas:** Obviously.

**Mr. Massey:** I just want to follow that up and ask what the immediate effect would be if your proposals were adopted, on the wage earner of the country and the producer of the country?

**Major Douglas:** Taking these particular proposals as they stand it would have a tendency to raise the price level and so far as the wage earner is concerned that would have a tendency to increase employment, and also it would put him in a more fav-

[Page 16]

ourable position to buy what is available. Insofar as the rise in the price level is reflected in consumable goods, which in the first place it would probably not be, but if it were, would make it clear that proposals in regard to dealing with prices were also necessary.

**Mr. Massey:** Under your proposals, do you actually distribute the reserves created by the mutual insurance companies?

**Major Douglas:** No, sir; I am sorry that it seems so difficult to make this point clear to you. If you say that the power of creating money to correspond with existing price levels resides in the owners of those reserves, then what you say is correct; but you're making an extremely momentous statement if you make that statement. What I am saying is that I would put at the disposal of the public the purchasing power reaped by the difference between those two price values, which is something quite different.

**Mr. Massey:** May I repeat another question: what would be the immediate effect if your proposals were put into operation, on the dairy farmer, if you take into consideration the fact that approximately 80 per cent. of the dairy produce in New Zealand is sold in the markets of the world?

**Major Douglas:** The effect would be immediate on the producer insofar as the producer is overdrawn. It would decrease his overdraft and would therefore release to him additional money which is partly required for the purpose of reducing the overdraft on many occasions, and further would mean that he would be charged less interest on what overdrafts remain, so that it would be of direct benefit to him, and because it puts him in a stronger position, it obviously improves employment.

**Mr. Massey:** I am afraid I'm not quite clear; if you take up today's paper you will find according to the cables that New Zealand butter is sold on the London market at 73/- per hundred; would your proposals have any effect on the price level?

**Major Douglas:** No proposals I am making at the present time deal with the price level as I think it should be dealt with, but in order to do that I have to traverse the tenets of the existing financial system; that I am not doing. The answer to your question so far as it is confined to these particular proposals before you is that it would tend if anything to slightly increase the general price level in this country, and in my opinion largely in regard to primary product products and not secondary

products, and that by releasing the purchaser from financial embarrassment it would enable him to in his turn provide more employment.

**Mr. Massey:** Yes; you will admit that approximately 80 per cent. of the dairy produce is sold in the growth markets?

**Major Douglas:** Yes.

**Mr. Massey:** Under your proposals you say it would tend to increase the price level in this country?

**Major Douglas:** Obviously not in regard to an article like butter which you quite correctly say is governed by a world price level. That can quite easily be dealt with by proposals which do traverse the tenets of the existing financial system which we are not discussing at the present time, but the whole of the price level in this country is not made up from butter.

**Mr. Massey:** Very well; we will take wool. Approximately 90 per cent. or 95 per cent. of wool is sold overseas: what is the effect on that?

**Major Douglas:** The price of wool has risen so high you do not need to bother about it.

**Mr. Massey:** You say that really, under these conditions, the banking system has no effect at the present time?

**Major Douglas:** The banking system to, assume a tangent at the moment, is obviously producing the conditions which are due to the rise in price, but I should not like to say that that was a positive advantage of the banking system.

**Mr. Massey:** the same argument applies to meat?

**Major Douglas:** Yes I said to the Chairman some time ago that one of the reasons why general fundamental principles would require a different application to that in Europe is that your produce is unquestionably unbalanced, and is undoubtedly governed by world prices at the present time, and to that extent the rise in price level which would normally be produced by proposals of this kind would be less than normal. I do not regard it as an advantage that the price should rise but this would tend to produce a rise in price levels, but to the extent it does not produce a rise in price levels the ordinary wage earner is affected.

**Mr. Massey:** If your scheme only applied to New Zealand, it would not have a great effect on the present conditions?

**Major Douglas:** These specific proposals are suggestions made to this honorable Committee which can put into operation without traversing the existing financial system, and I think they would produce highly beneficial results, but they would not go to the root of the whole problem, as I think I have made plain.

**Mr. Massey:** It is admitted that we export a greater portion of the primary produce from New Zealand and we accept the world's price level?

**Major Douglas:** You are not obliged to accept the world's price level. You can put an export bounty on at the present time

or do anything you like of that kind. That is not accepting the world's price level.

**Mr. Massey:** The initial money what would actually be found by the people?

**Major Douglas:** On the contrary, that is exactly the difference between a subsidy and a creation of credit. The primary trouble is that there is a great deal of a unmonetized wealth in the country; these proposals are simply proposals for monetizing that wealth and not taking it off and already insufficient amount of money for any specific purpose.

**Mr. Massey:** Very well, you get right back to the original question: how would you value of the assets of the country? I think it has been made clear that we export the bulk of the primary produce, and that must have an affect on the valuation of the assets which

[Page 17]

are held by the banks and the insurance companies.

**Major Douglas:** That is really, if I understand the question rightly, an extremely involved question, because if you deal with this subject only from the purchasing power end and leave the price end alone, proposals of this sort are going to affect the prices to some extent and therefore valuations are undoubtedly going to be effected accordingly. For instance, if you have by these proposals, as I firmly believe you would, a very general improvement in business, then quite obviously the value of businesses concerned would rise. The value of businesses concerned cannot operate if the purchasing power is nil. It is something else again if the business can operate. If that is suggested as an alternative, I should say that is an argument for dealing with both the price end of the system and the purchasing power, but to deal with the price end you have to traverse the existing financial system.

**Mr. Massey:** Very well, I will put one direct question as a dairy farmer in New Zealand: It is admitted that we export approximately 80 per cent. of the milk products which are produced in New Zealand and we sell them overseas and accept the world's price levels for those products; how much better will my position be if we accept your proposals?

**Major Douglas:** Your position will be this much better, that I should assume if you are a dairy farmer, you must be almost unique if you have not got an overdraft.

**Mr. Massey:** Unfortunately I have not that privilege.

**Major Douglas:** You are not unique in that way?

**Mr. Massey:** Many dairy farmers cannot arrange overdrafts but that are financed by the dairy factories.

**Major Douglas:** The only difference is that one is a fixed overdraft and the other is a fluctuating one. In this case you would be benefited by having your liabilities decreased.

**Mr. Massey:** By making someone else pay them?

**Major Douglas:** Not at all, by creating something that was not there before.

**Mr. Massey:** One more question: in your opinion is it desirable to produce goods at a loss?

**Major Douglas:** That entirely depends upon your definition of a loss.

**Mr. Massey:** Take a dairy farmer's cost of production: the bulk of the dairy farmers in New Zealand are producing dairy produce and selling it at a loss.

**Major Douglas:** Selling it at a financial loss, but you would not suggest that the production of those dairy products is a loss to the world.

**Mr. Massey:** So far as dairy produce is concerned, the value of dairy produce is determined, I think, by consumption in other parts of the world.

**Major Douglas:** The value of it is determined, or should be determined, by what is the result of producing that produce, and by its being used by the population. The fact that you produce it at a financial loss whereas in fact it is a benefit to the general population is simply an illustration of the fact that the financial situation does not reflect the actual facts.

**Mr. Massey:** In effect you suggest that the rest of the community in New Zealand should subsidize in some form or other the dairy farmers of New Zealand?

**Major Douglas:** Not at all; if you ask the rest of the population of New Zealand to subsidize the dairy farmers you are taking from the rest of the population of New Zealand part of an already insufficient amount purchasing power, but if you create by any method at all an additional amount of purchasing power, which enables you to sell your produce and not to make a loss on it, then you are not taking it from the rest of the population.

**Mr. Massey:** Can we in New Zealand assist the people of Great Britain in finding additional purchasing power in order that they in turn can purchase the produce?

**Major Douglas:** Yes, you could do it in two ways. We will attend to one part of it in Great Britain was a certain amount of luck, and you assist them directly by selling in Great Britain at a lower price. When you sell your produce in Great Britain it does not mean that you have to receive a lower price but when you sell in Great Britain a lower price you assist the consumer to get more for his money.

**Mr. Massey:** I have already stated that the dairy farmers of New Zealand are producing dairy produce at a loss and selling the great bulk of it in the world market. Do you suggest that the remedy is to keep on selling and producing more and selling at a lower price?

**Major Douglas:** What I say is that the remedy is to adopt methods by which you can sell at a low price and not make a financial loss.

**Mr. Lye:** Will you agree, in the first instance that we have no perfect system of banking and finance throughout the world?

**Major Douglas:** Certainly.

**Mr. Lye:** Very well, would you agree that the system of banking and finance is undergoing constant change, in as much as recently we had the establishment of a central reserve Bank and that the change is for the betterment of the people as a whole?

**Major Douglas:** No.

**Mr. Lye:** You do not agree?

**Major Douglas:** No.

**Mr. Lye:** These proposals have been advanced by you not as a cure, I understand, of the ills from which we are suffering but to assist in some degree in a more equal distribution of what you may term community created wealth. Is that right?

**Major Douglas:** Yes, I think I should be inclined to agree with that.

**Mr. Lye:** The next question is this: under your proposals which have been submitted this morning you propose to limit, in the first instance, the earning capacity of capital and it is the reserves, disclosed or undisclosed, you propose to distribute, the profits over and above the amount that would be required to pay a 6 per cent. dividend on the invested capital in the Bank?

**Major Douglas:** Before I could possibly answer that question I would want a definition from you as to what you call capital.

**Mr. Lye:** My definition of capital is the money employed in running the institution. Money that is required to carry on the business of banking and finance.

**Major Douglas:** The money employed to carry on the institution is got by the Banks themselves.

[Page 18]

**Mr. Lye:** Well, say the assets and securities of the bank.

**Major Douglas:** At any rate I do not follow that.

**Mr. Lye:** Will you agree that if the reserves of the Banks do not provide sufficient to pay more than 6 per cent. there would not be any justification for this proposal?

**Major Douglas:** That appears to be obvious.

**Mr. Lye:** Supposing there is a distribution, that has to go to the customers at the bank in reduction of their bank overdrafts?

**Major Douglas:** To one of the expense accounts, yes.

**Mr. Lye:** It might possibly go to individuals, non-shareholders, who had taken no risks—there is a risk in financing and banking—carried no responsibility. What I want to make clear is this, would all individuals have the same right under the distribution of profits from the Suspense Account No. 2? Would a person with no family responsibilities be placed in the

same category or treated the same exactly as a man who had family responsibilities?

**Major Douglas:** It is for every New Zealander, irrespective of station.

**Mr. Lye:** If the present system is responsible for many of our failures, you do not claim that your proposals submitted before the Committee this morning go the whole way in getting us out of our difficulties?

**Major Douglas:** No.

**Mr. Lye:** While it may or may not be admitted that the proposals which you have submitted will provide a more equal distribution of the community created wealth, the question I want to ask is this: Is it not a fact that the real wealth of the Dominion is largely dependent upon the exchange value in the markets of the world of our produce, of what we export, for we are an exporting country and not a manufacturing country, and that our real wealth is largely dependent upon the exchange value of our goods in the markets of the world?

**Major Douglas:** Not fundamentally. The answer to that is really very largely the same sort of answer as to the question, "Did the hen or the egg come first in the world?" The exchange value of your products in the markets of the world is almost entirely governed by the conditions under which they are exchanged. Under the present financial system, and again I am being strictly orthodox, it is necessary for practically every country to establish what is called a favorable balance of trade. That is to say, it must compete for exports. The value of your exports under the existing financial system is mainly governed by the stringency of the competition, and it is the conditions under which you export rather than the actual facts of the exportation which govern the value of your exports.

**Mr. Lye:** Will you deny that the purchasing power of the producer in New Zealand is governed by the exchange value of his goods overseas?

**Major Douglas:** It is not necessarily governed.

**Mr. Lye:** I do not like the qualifying word "necessarily." Is it at the present time?

**Major Douglas:** Unquestionably, even within the confines of the existing financial system.

**Mr. Lye:** Under the present financial system?

**Major Douglas:** It would not necessarily be under perfectly orthodox finance. It is powerfully affected by such things as import or export quotas and tariffs and bonuses and so on.

**Mr. Lye:** Is not the question of the velocity of circulation, which in our present circumstances has largely been slowed down through the small margin between cost of production and the selling price, an important factor in our troubles today?

**Major Douglas:** No, I confess I do not quite see what the connection between the velocity of circulation is. The velocity of circulation has almost nothing to do with it.

**Mr. Lye:** Then you would say that velocity of circulation is not

a matter of very great importance. Would it be a question of the quantity of currency and credit in the country rather than the turnover of goods and services?

**Major Douglas:** Absolutely, because the modern production system is not an exchange for goods and services; it is a draft by the population upon the central pool of wealth.

**Mr. Lye:** This, I might say, appears to be a very important question and I think it is of significant importance that we should have clarity. I do not necessarily mean the exchange of money for money, but I mean the exchange of credits, the exchange of goods and services taking the place of credits in the banks, and the exchange of credits from one individual to another, and I was going to submit that that is a matter of great importance in any scheme of finance.

**Major Douglas:** I quite agree with that.

**Mr. Lye:** You do not attach a very great deal of importance, unless I have misunderstood you, to this question of velocity of circulation—the exchange of credits from person to person?

**Major Douglas:** I attach a great deal of importance to the understanding of it but not to the statement that velocity of circulation in itself is important.

**Mr. Lye:** Many of us have given this question a great deal of consideration I believe that the people of New Zealand would be grateful to receive something more than what we can get today. Of course your time is limited, we recognize that, but could you, before leaving New Zealand, supply us with additional information showing us how purchasing power can be made to equate to production?

**Major Douglas:** Well, the general principles by which purchasing power can be made to equate production are available in quite a large number of books, simply as principles, and I do not think, personally, that I have got very much to add to what there is available in those books as to general principles. What I would repeat is that my services are at the disposal of the Committee to any extent and for any length of time—but I have quite definitely no available time between now and the 6<sup>th</sup> March, when I leave from Auckland, and I should even change that if I were not definitely committed to two Government Committees in another country, and that I obviously cannot interfere with. Still there is the post.

**Mr. Lye:** Would you not agree with a statement which I now makes that whilst there are many books, as you have stated, dealing with the

[Page 19]

principles, there is not one book that I know of that lays down a definite plan for putting the theories into actual practice?

**Major Douglas:** No, I should not agree with that. I should say that there are in existence plans which require remodelling in various respects for particular circumstances, but it would be very unwise to proceed further than I have proceeded at the present time with a final plan for New Zealand without going

into close consultation with Ministers of the Crown and many other people before the thing was embodied in an Act of Parliament. Quite obviously, a thing of this sort, if possible, wants to be arrived at by reasonable negotiations, so long as the principles are kept in mind. That is a sort of general answer.

**Mr. Lye:** So you think there are plans which require remodelling to suit particular circumstances. Do you know of any plan that is foolproof or perfect that can be put into operation with advantage to the people of this country?

**Major Douglas:** I should say that with very slight modifications which would suggest themselves to anyone who dealt with it, this plan of mine could be put into operation and then built upon and proceeded further with.

**Mr. Lye:** I think it is right to say that the Banks are trading Banks or institutions?

**Major Douglas:** I am never quite sure whether it is right to say that or not, because at one time I am told that the Banks are purely trading institutions and at various other times I am told that they are vitally connected with industry, that they have the interests of the public at heart, that they are practically identified with the country, that they are New Zealand, and that any attack upon them is an attack on New Zealand and so forth. I therefore find it very difficult to make up my mind as to what the Banks themselves say they are.

**Mr. Lye:** Leaving New Zealand out of the question would you say that the Banks generally speaking are trading concerns?

**Major Douglas:** I think there can be no doubt about that, as a fact.

**Mr. Lye:** I agree with that entirely. If your proposals submitted this morning are sound in every particular, following upon the suggestion made by the Hon. Mr. Downey Stewart, is it unreasonable to suppose that these proposals must not stop at dealing with trading Banks alone, but they must embrace practically every trading company, and particularly the Farmers' Trading Institution and the Stock and Station Agents, who both accept money on deposit. They both lend money to the producers of this country. If these proposals are put into operation would you raise any objection and would you agree that the other trading concerns of the Dominion would provide a profitable ground for an extension of the proposals which you have submitted this morning?

**Major Douglas:** If there is a very clear distinction. These proposals are directed to provide a means for increasing the monetization of wealth which is produced or is available. So far as I am aware there may be local practices in New Zealand which come within what I am proposing. Do these concerns to which you refer increase or decrease deposits in the Dominion which are drawable upon by cheque?

**Mr. Lye:** Yes.

**Major Douglas:** Then to the extent that they create those deposits they come within the scope of these proposals.

**Mr. Clinkard:** A great deal of what I have to ask has been covered by previous speakers. I would, however, like to be

clear on this point. Does your proposal cover both disclosed and undisclosed profits, that is to say, all reserves?

**Major Douglas:** Yes.

**Mr. Clinkard:** could: banks were established in New Zealand unquestionably for profit the same as other institutions were, and they are closely allied with the public interest of the country. Shares have been transferred from time to time. Values of those shares have depended largely on the amount of their accumulated reserves?

**Major Douglas:** Quite.

**Mr. Clinkard:** Any proposal to annex those reserves and divide them for the benefit of any other persons, however worthy, would be an unjustifiable deprivation of those people who bought the shares, would it not?

**Major Douglas:** That involves the same question that I am so unable to make clear. The thing which is going to be divided under these proposals is the monetization of those reserves, not the reserves themselves. If you claim that you are taking away from those institutions the power of monetizing those reserves for their own benefit you are claiming that those reserves have the power of creating what, in effect, is currency. It is, I believe, an accepted fact of statesmanship that the power of creating currency, or that which goes as currency, is the prerogative of the supreme power, the Crown.

**Mr. Clinkard:** You mean legal tender?

**Major Douglas:** Yes. Those undisclosed reserves, so long as they are in the form of price values, are not in any sense purchasing power or legal tender. What I am proposing to do is to monetize those undisclosed reserves and distribute them. Your objection is based on the assumption that the power of monetizing those reserves is the proper prerogative of the people who hold the reserves. I say it is not.

**Mr. Clinkard:** It would appear to me that in any case, whether you take it for monetizing purposes or whether you take it for any other purpose, you are depriving the present owners of the free right and use of their property.

**Major Douglas:** Supposing I make that clear by an illustration. Supposing you had no money at all in New Zealand and that, as is freely admitted, you cannot carry on modern business in a modern world by barter . . .

**Mr. Clinkard:** That is admitted.

**Major Douglas:** If I were suddenly to monetize the whole of the real wealth of New Zealand by a process of writing figures in a book or printing banknotes, if I created purchasing power equal to the whole value of everything in New Zealand, would you say that that was my profit?

**Mr. Clinkard:** I think that is confusing the position. I understand you to say you would be surprised to hear that a

Bank was unable to pay more than 6 per cent.?

**Major Douglas:** yes.

**Mr. Clinkard:** Have you any experience of Bank failures?

**Major Douglas:** Yes.

**Mr. Clinkard:** It is a rather pain a painful experience.

**Major Douglas:** This is a very good instance of what I mean. No Bank ever failed in the whole history of Banks because it had not got real wealth at its disposal. Why it failed was because it could not meet its demands for liquid purchasing power. That is exactly the position in the United States. The commonly accepted explanation of all the bank failures in the United States is that they were loaded up with frozen assets. All that was required to prevent those Banks failing was that they should monetize those assets, and I am providing you with a method of monetizing them.

**Mr. Clinkard:** We are told that the Banks do that now.

**Major Douglas:** Yes, but not many Banks are in a position to monetize their assets to the extent that is required.

**Mr. Clinkard:** Are you in favor of controlling prices?

**Major Douglas:** Unquestionably, on properly thought-out lines.

**Mr. Clinkard:** That is a very important point. There is one other question I would like to ask. In view of the close connection between New Zealand . . .

**Major Douglas:** Might I just amend my last answer slightly. I am in favor of regulating price levels, which is not quite the same thing.

**Mr. Clinkard:** In view of the close connection between New Zealand and the Motherland, do you consider it feasible for New Zealand to pursue a financial system diametrically at variance with that in Great Britain?

**Major Douglas:** Well, that really requires an answer as to the highly ethical standpoint of the bilateral bargain, if you are suggesting that New Zealand would be penalized . . .

**Mr. Clinkard:** I do not mean that.

**Major Douglas:** Then I should say it is quite technically possible for New Zealand to pursue a different principle.

**Mr. Clinkard:** You know Sir Arthur Salter's view on that subject, that our close connection makes it more difficult.

**Major Douglas:** I should still have my own opinion.

**Captain Rushworth:** The term "price level" has been used this morning. Is there any such thing as a world price level?

**Major Douglas:** I should very much doubt it.

**Captain Rushworth:** Are you familiar with the formula of Dr.

Walter Rautenstrauch, of Columbia University, in which is set out the conditions in the United States that production is increasing; production is excessive?

**Major Douglas:** I think I have them available here. I think I can say I am familiar with it. Naturally, I did not know you were going to ask that question.

**Captain Rushworth:** That formula related to the conditions of the United States. Generally speaking, would you say that that is applicable to the whole of Western civilization?

**Major Douglas:** Broadly speaking. I think it is applicable to the whole of Western civilization.

**Captain Rushworth:** You were asked for a specific plan for New Zealand. From a newspaper report which I have seen you were asked a similar question in Australia, New South Wales, and you replied by referring to a bridge. You said that it was quite possible that you could prepare the plans and specifications of a bridge, even putting in each individual rivet if necessary, but a great deal of work was involved, and you found that after all the trouble had been taken it was decided that after all the bridge was not wanted. Is that idea applicable to New Zealand at all?

**Major Douglas:** Yes, I think I might, broadly speaking, answer that in the affirmative.

**Captain Rushworth:** The question of Trading Banks was raised. Until quite recently we had six Trading Banks operating here and they have performed the function of manufacturing money. That function has now been transferred to a reserve bank. Were not those institutions in the same position as the Royal Mint?

**Major Douglas:** Not quite. The Royal Mint, as far as it manufactures metallic coinage, manufactures tokens of purchasing power which circulate between individuals and are not destroyed, at any rate until they are worn out. The difference between that and the operations of a Bank, is that the Bank does create purchasing power, having exactly the same function as that of the Royal Mint, but it periodically destroys it at very much shorter intervals, therefore this cycle of circulation of the Banks' money is very much shorter than that of Royal Mint money.

**Captain Rushworth:** That is what I was coming to. When the money was metallic in Great Britain, not so very long ago, the Royal Mint had the sole right of making money. There were severe penalties on anyone who performed the function of the Royal Mint and the Royal Mint was regarded as the most powerful instrument of government. Under modern conditions, who is it, or what is it, that performs the functions of the Royal Mint, seeing that we have not a metallic monetary system?

**Major Douglas:** The banking system.

**Captain Rushworth:** So the banking system has taken over, to a large extent, the powers of the Royal mint.

**Major Douglas:** It has taken over the powers of the Royal Mint unquestionably, but it does not function very satisfactorily in the orthodox point of view, because its cycle of creation and

production of money and the subsequent destruction by payment of loans is very much shorter.

**Captain Rushworth:** Following up that point for a moment. In olden times when the Royal Mint made golden money, sovereigns, the discoverers of gold could and did take the gold to the Mint and it was minted free of charge. The sovereigns were handed back to the possessors of the bullion and they were put into circulation, not as a loan but as a gift. They were in circulation permanently. When through wear, they fell below standardized weight they were returned to the Mint and re-minted and made up to the original standard free of charge, or at a small

[Page 21]

Charge.

**Major Douglas:** Entirely free of charge.

**Captain Rushworth:** The modernized monetary system is different in that money is not put into permanent circulation in the same way?

**Major Douglas:** That is correct.

**Captain Rushworth:** Whereas originally it was in permanent circulation, today it has a period and at the end of that period is cancelled out of existence. Is it correct to say that the cancellation, in almost every instance, it is premature?

**Major Douglas:** It is certainly premature from the point of view which I have taken up this morning, that is, that an accounting system should represent the facts of the physical system. It does represent cancellation of items in the accounting system which is not justified by the actual physical disappearance of the assets.

**Captain Rushworth:** Could we go a step further and say that the cancellation should not take place in any case unless there is a net wastage of assets?

**Major Douglas:** Absolutely.

**Captain Rushworth:** If you had a progressive increase of national assets there should be no cancellation but a steady progressive proportionate increase of the money?

**Major Douglas:** That is so, unless you have what amounts to the same thing, a progressive decrease in prices which would increase the purchasing power of the tokens.

**Dr. Sutch:** Will you deny that there is or has been a world price level for wheat?

**Major Douglas:** I assume that the question of a world price level is in the sense that the question was asked by Captain Rushworth. It is really mixed up with the question of whether there is such a thing as a world currency.

**Dr. Sutch:** May I quote you earlier in the discussion; you said something such as "Private initiative is admirably successful"; do you still agree?

**Major Douglas:** Yes.

**Dr. Sutch:** And again: "Nationalization of insurance funds does not mean interference with the present system"?

**Major Douglas:** Did I say that?

**Dr. Sutch:** I believe that it was the gist of your remarks.

**Major Douglas:** It may have been the gist of them.

**Dr. Sutch:** You say the whole property of the country must go into the hands of the Banks. Under that assumption how is it that tens of thousands of banks failed in the United States in the last few years?

**Major Douglas:** I simply repeat, the explanation is frozen assets.

**Dr. Sutch:** You are familiar with the New Zealand banking system?

**Major Douglas:** Fairly, in that I assume it to be substantially similar to the British system.

**Dr. Sutch:** You know what we mean by Stock and Station Agents?

**Major Douglas:** I confess I did not know until this morning; I have gathered more or less from what has been said.

**Dr. Sutch:** They extend intermediate credit to the farmers to a much greater extent than the Trading Banks. Would you say that there was monopoly of credit in New Zealand?

**Major Douglas:** Yes.

**Dr. Sutch:** Would you say that an exporting or importing house does not sometimes extend credit?

**Major Douglas:** I should like to refer you again to my sharp distinction between institutions which can definitely increase or decrease deposits which are drawable upon by check.

**Dr. Sutch:** That does not necessarily include some of the institutions I am referring to. In the depression a good number of farmers in this country have been "carried" by storekeepers. The storekeepers have let the farmers have the goods. They have been sold on credit so that there has been a substitution here, you see.

**Major Douglas:** They are intermediate agencies between the original sources of credit. It must mean something which would create deposits.

**Dr. Sutch:** Not in this case; the original source of credit was the goods forwarded to the English market. The price realized in London would pay off the country storekeeper.

**Major Douglas:** To the extent that money came into the question at all. We were speaking about what is technically known as financial credit.

**Dr. Sutch:** Were we? I suppose it is a matter of definition.

**Major Douglas:** The commonly accepted definition of financial credit is something which creates deposits drawn upon by check.

**Dr. Sutch:** Would you agree that the strength of Banks and Insurance Companies ultimately depends upon their capital and reserves?

**Major Douglas:** I would like to know what you mean by capital.

**Dr. Sutch:** In the sense you are using it; that there may be uncalled capital but there certainly will be assets which could be "marketed in the usual manner."

**Major Douglas:** Do you mean the physical assets?

**Dr. Sutch:** Yes if you include securities which are a claim on physical things.

**Major Douglas:** What is your question?

**Dr. Sutch:** Would you agree that the strength of the Banks and Insurance Companies ultimately depends on the amount of their capital and reserves?

**Major Douglas:** What do you mean by the strength?

**Dr. Sutch:** I am afraid if you are going to ask me to define every simple word we will have to let the question go. By strength I mean the financial soundness of an institution; that it will not default when quite legal and usual demands are made upon it.

**Major Douglas:** I should say that ultimately the soundness of an institution of that kind depends upon its powers of liquefying its reserves.

**Dr. Sutch:** Under the scheme you have here, do you not think that the soundest, the most well-run Bank, the Bank that has the greatest reserves, will have to pay out the most in reduction of overdrafts?

**Major Douglas:** That probably means that it has taken most from the community.

**Dr. Sutch:** If it is an efficient concern, and has prudently managed its reserves it will pay out more?

**Major Douglas:** I would not agree with that definition of efficiency.

**Dr. Sutch:** Banks which were not run very well would not have to pay out or contribute so much because they have not very large reserves?

**Major Douglas:** They do not have to pay out anything at all; any of them.

**Dr. Sutch:** Under this system of reduction of overdrafts, the biggest business will get the biggest concessions?

**Major Douglas:** I am assuming that they have got their overdrafts on the basis of the size of their businesses.

**Dr. Sutch:** Take a man who borrows extravagantly and a man who runs the business prudently, the man who borrows extravagantly will get better treatment than the man who has built his business up by other methods than borrowing from banks?

**Major Douglas:** I would say that the answer to that is that you can fairly well depend on the average bank not to lend more money than it is assured of getting back.

**Dr. Sutch:** A very good answer too. As to the difference between borrowers there is an judgment made there; some overdrafts are charged 7 per cent., some 6 per cent. and some 5 per cent. The ones who are paying 7 per cent. on overdraft get a greater reduction than those who pay 5 per cent. The shakiest accounts get the best reduction and the best accounts get less?

**Major Douglas:** The objective of the proposal is to put all things on a sounder basis; therefore what you want to do is to stabilize the shaky ones.

**Dr. Sutch:** I see; you encourage the shaky ones to borrow heavily because they know they will get a good reduction?

**Major Douglas:** You can leave that safely to the Banks, I think.

**Dr. Sutch:** Assuming a Mortgage Investment Company, with whom would you invest, a Mortgage Investment Company or an ordinary Insurance Company or Bank? Would there not be differential treatment? One is going to have something happen to its assets and its dividends and the other is not going to be treated in the same way. The investor will therefore put his money into the Mortgage Investment Company which is not interfered with.

**Major Douglas:** All the time you are suggesting that I am proposing to take from two selected firms or institutions something to which they have a right, the right of monetizing their frozen assets. The whole basis of your questions is an assumption that they ought to be to have that right. If so, then of course I am taking it from them. That is indisputable. The whole question as to whether I am taking anything from them at all turns on whether they do by legal or actual or any other right possess the power to monetize their own assets. If not, I am taking nothing from them.

**Dr. Sutch:** I quite realize you are taking nothing from the Insurance Companies in the sense that you are issuing a piece of paper as a preference share; but you are certainly taking some of their dividends. Say you have a balance sheet value and a market value; the difference is £1,000,000 the first year; £1 million is put to Suspense Account. In the next year will there be another million?

**Major Douglas:** I should think it is highly probable from the rate at which the assets of the community are in the hands of the Banks and Insurance Companies.

**Dr. Sutch:** So that next year, even though we have the same

market value, there would be another million available?

**Major Douglas:** Yes.

**Dr. Sutch:** Put that that £1,000,000 into Insurance Account No. 1: you have half a million paid out in one year to these "natural born" New Zealanders. Assume there are half a million "natural born" New Zealanders over 21 years, they get £1 share each?

**Major Douglas:** Yes, on these figures.

**Dr Sutch:** So that, if they got 5 per cent. on those shares, they are getting 1/- a year?

**Major Douglas:** Yes.

**Dr. Sutch:** If you have a slightly falling price level and the market value of your shares goes down next year, what is going to happen to your Suspense Account?

**Major Douglas:** Which suspension account?

**Dr. Sutch:** The Insurance one—Suspense Account No. 1.

**Major Douglas:** Well anything might happen to it. If the actual asset comes into the possession of the institution and is not increased, there will be a fall between the ascertained price value and the marketplace value.

**Dr. Sutch:** Why do you think Banks keep reserves? You think it is just a bluff?

**Major Douglas:** Very largely to conceal their enormous profits.

**Dr. Sutch:** What is the use of these profits stored away?

**Major Douglas:** To maintain what you call "their financial soundness."

**Dr. Sutch:** So that it is of no immediate use to the Banks really, in that it might have been purchasing power?

**Major Douglas:** It is every use to the Banks; it puts them in control of the country.

**Dr. Sutch:** Would Insurance Companies include life, fire, accident and mutual insurance?

**Major Douglas:** That has nothing to do with the assets of the Banks.

**Dr. Sutch:** In the insurance scheme a mutual insurance company of course would have no share capital in the ordinary company sense, would it?

**Major Douglas:** No.

**Dr. Sutch:** How are you going to divide up what corresponds to 6 per cent. of the share capital?

**Major Douglas:** On a limit basis.

**Dr. Sutch:** Insurance payable by Insurance Companies does not in some cases become due for 40 or 50 years; some of these

inner reserves are to be realized in the future. It would be folly of course for the companies to get rid of those reserves now?

**Major Douglas:** There is nothing to prevent them being treated by discounting.

**Dr. Sutch:** I noticed the term "re-discounting of reserves"; what do you mean by that?

**Major Douglas:** Taking an asset which you cannot discount in normal institutions and obtaining money from the Reserve Bank on a very small percentage.

**Dr. Sutch:** You mean discounting, not re-discounting?

**Major Douglas:** Not necessarily; a great many of the things discounted by the Reserve Bank have already been discounted.

**Dr. Sutch:** I am aware of that, but the difference between the balance-sheet value of the reserves and their market value is not discounted as a usual practice so that the term "rediscounting" is inapplicable. We assume that you rediscount with the Reserve Bank; in turn you are using the proceeds to give preference shares to the people of New Zealand—pieces of paper—but you would not need cash proceeds. The difference between the value and the market value; you discount it in some way but you would not "monetize" it? You do not increase purchasing power but only issue a piece of paper which is non-transferable

[Page 23]

and not security for a loan. Why go to the Reserve Bank when you do not need liquid funds?

**Major Douglas:** Would you rather go somewhere else? I have no objection.

**Dr. Sutch:** I do not see why the Reserve Bank comes into it.

**Major Douglas:** All purchasing power which is required in return for those shares is based on the assets of the companies.

**Dr. Sutch:** Your scheme means that you are not going to sell the land and property of the Banks and Insurance Companies but there is a difference between the market value and the balance sheet value. This difference you are going to issue by way of shares so that you will pay dividends on the private assets of the community. You are basing these preference shares on existing assets; could not the scheme be extended to all existing assets in the country?

**Major Douglas:** It will in time.

**Dr. Sutch:** So that you can have all the land and assets of the country and issue debenture shares on that?

**Major Douglas:** That depends on how much you require purchasing power.

**Dr. Sutch:** Assume that I require two or three times more than I

have?

**Major Douglas:** The only fundamental question is, can it be provided out of the resources of the country.

**Dr. Sutch:** You value your assets and get your scheme into operation; if prices rise, the value of those assets would rise sent insurance scheme and operations; if prices rise, the value of those assets would rise.

**Major Douglas:** I said that if a business was transformed from practically a dead business to one which was selling, by any process whatever, rise in prices or otherwise, obviously the value of the business does rise.

**Dr. Sutch:** You assume that if the market price of the product rises, the market value of land would rise?

**Major Douglas:** That depends on a lot of other things.

**Dr. Sutch:** If the price of a product derived from land rises, then would not the land itself tend to rise in value?

**Major Douglas:** Yes.

**Dr. Sutch:** So you have a greater basis for preference shares and dividends?

**Major Douglas:** That would be so.

**Dr. Sutch:** Assuming your scheme increases the purchasing power of the people, the value of all producing assets goes up?

**Major Douglas:** If you do not deal with prices at all it does.

**Dr. Sutch:** Therefore you can issue more preference shares which will claim dividends?

**Major Douglas:** I should not like to proceed so fast as that, but it sounds quite moderate.

**Dr. Sutch:** You would like to equate the purchasing power of the community to the goods available for consumption?

**Major Douglas:** That is not involved in this scheme.

**Dr. Sutch:** I am talking of your social credit schemes. You would like also to equate purchasing power with all the second-hand goods in the community.

**Major Douglas:** Yes.

**Dr. Sutch:** Goods, and services also, should have purchasing power equated to them?

**Major Douglas:** Yes.

**Dr. Sutch:** We will assume that a lecturer is holding a meeting in the town hall and charging 1/- for admission; what purchasing power would you equate for his services?

**Major Douglas:** What it costs.

**Dr. Sutch:** We will assume 1000 people at the lecture; you would not assume that was the cost of the lecturer? How would

you arrive at the value of the lecturer?

**Major Douglas:** It is not at all necessary to arrive at the value of a lecturer. I do not want to take up your time or mine by answering hypothetical questions.

**Dr. Sutch:** You said you would equate the purchasing power necessary for a lecture by what it cost.

**Major Douglas:** His cost is the part of the consumption of the community for that space of time.

**Dr. Sutch:** How do you know whether the community is going to zoom the cost at one thousand shillings or not?

**Major Douglas:** What I can do is to find out quite easily for all practical purposes what is the average. . .

**Dr. Sutch:** If Bernard Shaw comes to New Zealand there may not be enough purchasing power available to hear him.

**Major Douglas:** All you will do under a condition of affairs like that is to transfer one set of tickets from a certain number of people in the community to Mr. Bernard Shaw. That does not increase purchasing power.

**Dr. Sutch:** So that some of the smaller, not so popular, lecturers will suffer, so that purchasing power has not been equated to services available?

**Major Douglas:** That depends on the lecture.

**Dr. Sutch:** Let us take another illustration: locally there is a glut in tomatoes and growers cannot cover costs. If by means of social credit consumers obtain more claims to wealth, would the tomato grower now cover his costs?

**Major Douglas:** Yes, he would recover his costs in prices.

**Dr. Sutch:** And if the good weather brings another glut?

**Major Douglas:** That is outside the scheme under discussion.

**Dr. Sutch:** One thing here: you say that any observed defects in the industrial system arise, under the hypothesis we have assumed, from the mal-distribution of sufficient quantity of purchasing power.

**Major Douglas:** Did I say that?

**Dr. Sutch:** Yes, in paragraph 2 of your covering letter of the 21st February covering your proposals: "Any observed defects in the industrial, social, and economic systems are, under this hypothesis, due to mal-distribution of sufficient quantity of purchasing power."

**Major Douglas:** Yes, under this hypothetical system.

**Dr. Sutch:** And so that, under this hypothesis, the sole thing that is wrong with the world is mal-distribution of purchasing power?

**Major Douglas:** You are misquoting me. I said, "I am therefore attaching certain proposals in outline, based upon the working

of the monetary system in its present form which for these purposes is assumed (without admitting such to be the case) to be self liquidating. This involves the assumption that sufficient purchasing power exists at any time to buy the goods which are for sale, at prices which are reasonably remunerative to those concerned in their production and sale. Any observed defects in the industrial, social, and economic systems are under this hypothesis due to the mal-distribution of a sufficient quantity of pur-

[Page 24]

chasing power." Would you mind quoting exactly what I say when you quote.

**Dr. Sutch:** But I have quoted your exact words from paragraph 2. Would you say that there are no other causes than the financial system for low prices existing in the country today?

**Major Douglas:** I should not say that the low prices are due to any other fact.

**Dr. Sutch:** Would you say that tariffs had anything to do with the problem?

**Major Douglas:** Only to the extent that they affect the distribution of industry.

**Dr. Sutch:** A technical change of industry; do you think that would have anything to do with it?

**Major Douglas:** That would have everything to do with it.

**Dr. Sutch:** Do technological changes make for low prices, under the hypothesis on which your scheme is based?

**Major Douglas:** Yes.

**Dr. Sutch:** If we could have something like the Douglas credit scheme working would we have better prices for dairy products?

**Major Douglas:** You could.

**Dr. Sutch:** Costs of course, would be included in deciding on the price?

**Major Douglas:** Yes.

**Dr. Sutch:** If you had a high price, then would some costs rise?

**Major Douglas:** Possibly.

**Dr. Sutch:** If you had a good price for dairy products would rents rise?

**Major Douglas:** Not necessarily.

**Dr. Sutch:** Would they be greater than now?

**Major Douglas:** Only so far as the amount of rent was a cost and was adjusted in accordance with the general principle of

adjusting costs.

**Dr. Sutch:** If you assume that system in New Zealand, and put 80 per cent. of butter into foreign markets, what is the local farmer going to do? He is faced with higher prices here and low prices in London: where will he send his produce? Would it not swamp the local market?

**Major Douglas:** If he exports it he is going to get a high price for the whole of the butter which he produces under a scheme by which prices are regulated, adjusting this scheme.

**Dr. Sutch:** Would they be fixed prices?

**Major Douglas:** No. I would crave the indulgence of the Chairman. We have been discussing the scheme suggested by me and then discussing banking, both of which I am pleased to discuss; but we are now discussing something else quite apart from those.

**Dr. Sutch:** Very well, then, I will leave that side of it. The discussion with the previous questioner, Captain Rushworth, was also on lines extraneous to the scheme under discussion. I would ask one further question. If we can assume the purchasing power is slightly increased by the proposal we have here, is there any reason for assuming that we will buy butter or meat? Perhaps we will prefer radio or motor cars?

**Major Douglas:** I cannot give any information as to the taste of the New Zealand public.

**Mr. Ashwin:** I have had the benefit of hearing the previous discussion, and probably many of the points which had occurred to me have been discussed. There are, however, one or two things I should like to ask. Your scheme, of course, is unorthodox and would raise some questions of equity, but I do not want to labor this now. I want to get on the questions of economic significance. The first point in that respect is this: would not your proposal, which you admit can only be an installment, undermine the psychological factor of confidence and make things a lot worse than they are now? The world over it is generally agreed that one of the things which has aggravated the difficulties, whatever the basic cause, is the shattering of confidence, of business confidence in particular. Would not your proposals here outlined, partly owing to the fact that they would run entirely counter to the ideas in New Zealand, and partly owing to the fear of what was going to happen next, would they not undermine business confidence still further?

**Major Douglas:** The answer is fairly obvious. If you can assume the world will recover from its present malaise by the process of restoring confidence, then of course your contention is perfectly right. If you assume, as I assume, that the difficulties in the world are due to radical defects in the financial system, restoring confidence is no good, and you are simply wasting time.

**Mr. Ashwin:** In other words, you think things are going to be worse before they get better?

**Major Douglas:** No. I think you have to do something within a short period of time, but in any case no question of barely restoring confidence in something not worthy of confidence is

going to be of much use.

**Mr. Ashwin:** I think you are not so much restoring confidence as destroying it. Business is on a more or less hand-to-mouth basis; if you make it worse, are you not in danger of facilitating a breakdown?

**Major Douglas:** If you assume that by merely not examining the position with respect to present prices and taking such steps as you can to remove the cause of the present prices, things will greatly improve for any considerable time, yes; but the whole of my contentions are based on the assumption that we are heading for a worse breakdown.

**Mr. Ashwin:** On the assumption it does not matter if you do anything or not?

**Major Douglas:** It is simply a question of whether you are doing more by taking action to the removal of the cause of the breakdown, or whether you think that a fools paradise is the best scheme.

**Mr. Ashwin:** That of course is dependent upon whether I agree with your contention.

**Major Douglas:** If you assume that there is nothing at all the matter with the world, that it is just contrariness, and that shortly things will be quite all right, it is obvious that confidence should be restored, but otherwise I think that restoring confidence is not necessary.

**Mr. Ashwin:** You intimated in certain of the remarks that these proposals will only show the necessity of going further, and on that point I was somewhat struck by the similarity of your proposals to your well-known scheme for Scotland. When it comes to the future steps, are you proposing to proceed on an application of that scheme?

**Major Douglas:** I think as far as New Zealand is concerned, quite a lot of what would appear

[Page 25]

on the surface would be a considerable modification of that.

**Mr. Ashwin:** It would be necessary. I was at first at loss to follow your basis of working in putting this scheme forward but in the light of your remarks and looking up your scheme, I find it is in principle very similar.

**Major Douglas:** The fundamental principles of what requires to be done are quite, as you might say, universal.

**Mr. Ashwin:** And they are the same as underlying this scheme?

**Major Douglas:** This proposal I am putting forward to you is certainly much less far-reaching.

**Mr. Ashwin:** Admittedly; it is only an instalment. I was just wondering whether. . .

**Major Douglas:** The proposal is designed for the purpose of

enabling goods to be bought and at the same time to provide for the fact that the use of power and machinery is displacing labor.

**Mr. Ashwin:** I do not want to take you into opening up a broader scheme, but you will realize that from my point of view, and as this is only an installment of this scheme, I want to know how far to apply that installment. I want to have some ideas as to what the procedure will be.

**Major Douglas:** Quite so. The direction is along the lines that I suggested this morning, that when we want to get a reflection in the actual financial system of the actual accounting facts, and take account of those facts in designing the scheme. The scheme is designed on the assumption that the facts are as they are stated to be.

**Mr. Ashwin:** From a practical point of view can I assume that with modifications the future steps that would follow this proposal would be along those lines—the permanent steps you would take, I mean?

**Major Douglas:** I think the actual form of anything I would suggest that you should adopt would take a great deal more detailed consideration. It would appear on the surface to be widely different to that scheme but there would be no radical difference of the principle involved. The difference would be based on the fact that New Zealand is a potentially rich and largely undeveloped country and that you have to pay a good deal more attention to development than, say, in Great Britain.

**Mr. Ashwin:** That really only affects our form of institutions rather than the question of trading. It affects pretty well all productive institutions in the same way as you are proposing to do here with Insurance Companies?

**Major Douglas:** No, I am afraid that is not correct.

**Mr. Ashwin:** However, you realize that the point is vital to me. When you are dealing with an installment of the scheme, before you can give due consideration to the installment you must know where you are heading.

**Major Douglas:** This proposal was not frankly put forward as an installment of this scheme but as a scheme which does not traverse any accepted principles of finance. I think, as an expression of opinion, that it would enable you to see the necessity of going further but it is not put forward as an installment of the scheme at all. I think you will probably find that it is a thing on which you can build, but that would be entirely a matter for your own country.

**Mr. Ashwin:** You said that this banking proposal is to take the undisclosed reserves; that they represent the physical basis for the creation of credit. I cannot follow that, except on the basis of your other statement where you say that the property of the country will pass into the hands of bankers. To be quite frank, I cannot follow that. From a superficial point of view, the Banks have been in operation for a long time and have not acquired much of the outside property yet.

**Major Douglas:** in Great Britain 90 per cent. is in the hands of the bankers.

**Mr. Ashwin:** It all depends what you mean by "in the hands of

the banks." Do you mean by that that a lot of property has been used as security for loans from Banks?

**Major Douglas:** Yes, either those loans have to be paid back— they never can be aggregate—or the property becomes the actual physical property of the banks.

**Mr. Ashwin:** Your statement did not mean that the Banks acquire the freehold in fee simple?

**Major Douglas:** Well, that involves a great step. Banks do not want to acquire the fee simple; they would prefer to leave it in the hands of someone else to manage.

**Mr. Ashwin:** Again, you say that a great deal of this property has been put up as security for loans which can never be repaid. The question of whether they can be paid off depends on whether a business is successful or not?

**Major Douglas:** The question as to whether a business is successful is dependent on how many loans are paid off. The definition of success in business is that you get more money in property in any real sense of the word; that you have more money at the end of the year than in the beginning. Before you can do that the question arises as to how many loans you can pay back. I am speaking in the aggregate.

**Mr. Ashwin:** Coming down to a single business, if a business is soundly based and efficiently managed, and normally most of them are—you have your failures from many causes but taking the normal businessman—it is carried on successfully. In other words, the proprietors of the concerns make sufficient out of them—their assets increased sufficiently—to provide them with a livelihood.

**Major Douglas:** That is because of the outstanding loans of the Bank.

**Mr. Ashwin:** Any successful business is continually paying its loans off—a successful business can liquidate its liability to the bank. I cannot see how the liquidation of the asset places it in the hands of the Bank.

**Major Douglas:** What an ordinary business man does when he carries on business is that he competes with other business people for a definite amount of monetary purchasing power. The amount of monetary purchasing power in the country is beyond all question simply controlled by the Banks—that is admitted not merely

[Page 26]

by economists of any standing but also by the heads of the great Banks themselves—so that when businessmen are competing for monetary profit they are competing for something over which they have no control whatever in the aggregate. They cannot themselves make any money with which to make a profit so that if the amount of money in the country is stationary then one set of consumers can only make a profit by another set of consumers paying it. The only condition under which they can all make profits is that the amount of monetary tokens in the country is continuously increasing in order to provide the

amount of the profit. If suddenly, at any moment, action from outside is taken to decrease the amount of those monetary tokens every one of them will make a loss.

**Mr. Ashwin:** I do not agree with that. The basis of business is not juggling of monetary tokens at all; it is in the exchange of goods.

**Major Douglas:** You reckon the success of your business in money. Now at the end of the year you consider that you have made a profit, you have more money at the end of the year than at the beginning. Supposing there is less money for everyone to have, how can you all have more money at the end than at the beginning?

**Mr. Ashwin:** I do not agree with you. Are you not confusing money in the shape of tickets to facilitate exchange with money as a common denominator of their value?

**Major Douglas:** No, but I think you are. You can create a lot more price values, quite obviously.

**Mr. Ashwin:** What I mean to say is that a person can have a profit at the end of the year. We will assume that the amount of cash at the start was £100 pounds and at the end only £50, he can have the profits in the goods.

**Major Douglas:** Now, when you are assessed for income tax on those profits, do you pay in goods or money?

**Mr. Ashwin:** You pay in money but that does not invalidate my argument.

**Major Douglas:** It does not represent goods unless there is enough money to buy the goods. You are carrying on business for the purpose of increasing your credit at the Bank.

**Mr. Ashwin:** No! I say you are carrying on business to accumulate money to get sufficient food for yourself and family.

**Major Douglas:** You get that by drawing checks on the Banks.

**Mr. Ashwin:** You get it by making butter and exchanging it for boots and clothing. Another point was that, even assuming we put your scheme into operation, it would appear to me that the economic effect is going to be inequitable. Having once taken the amount of the undisclosed reserves, whatever it might be, and distributing, say 50 per cent. in the first year and a decreasing portion in succeeding years, I cannot see that that is going to have any appreciable economic effect at all if every million in New Zealand only represents 1 per cent. of the overdrafts.

**Major Douglas:** I do not agree with the figure of one million, but I should be inclined to put it this way, that if it makes so little difference, then why not try it and see.

**Mr. Ashwin:** That opens up a lot of questions of principle that equity. I could not follow you when you said there would be a constant flow into the Suspense Account.

**Major Douglas:** One of two things would happen. Either they would pay off all overdrafts, in which channel you do not want

it to flow, or there would be a constant number of overdrafts which would not be liquidated and which would be called in and would be satisfied by assets which would go into the hands of the banks, into the Suspense Account.

**Mr. Ashwin:** If the assets were worth more than the amount of the overdraft, presumably the owner of them could have disposed of them and paid off his overdraft.

**Major Douglas:** That is not the point. The question is not what the overdrafts have been taken in return for but what is the price at which they are held in the balance sheet of the Bank when they are taken over.

**Mr. Ashwin:** You say having acquired the assets, they are going to create further credits, reserves, by writing down their assets out of profits so you can take that away from them. They will hardly do that?

**Major Douglas:** Then we should have very large disclosed profits of the Banks.

**Mr. Ashwin:** Your second point about the disclosed profits largely removes the possibility of making them, by in the first place taking away a portion of their capital assets.

**Major Douglas:** You cannot have it both ways. Either they do take over the assets and write them down or they do not write them down, in which case they make a profit.

**Mr. Ashwin:** That, again, I do not think follows because the profits are made up by the difference between what they are required to pay for money and the amount they lend it at.

**Major Douglas:** No doubt; they are made by the presence of actually created means of banking.

**Mr. Ashwin:** In regard to the insurance proposals: it was not made quite clear as to why you brought Insurance Companies inside the proposal. They are not yet part of the monetary system. I cannot see why you should take Insurance Companies and not investment trusts or breweries.

**Major Douglas:** But the Insurance Companies are part of the monetary system. A great many of the undisclosed assets of the Banks are in the Insurance Companies.

**Mr. Ashwin:** You say Banks have their assets in Insurance Companies?

**Major Douglas:** I think it would take us too far to follow that up but I think you can take it from me that there is a very close connection between the Insurance Companies and Banks.

**Mr. Ashwin:** I cannot see any closer connection than between the Banks and breweries.

**Major Douglas:** Perhaps you will take it from me as a statement, not necessarily true, that there is a closer connection.

**Mr. Ashwin:** You put forward the assumption that the existing financial system does not operate successfully. If your assumption is incorrect, then would you admit that it would not be necessary to put your scheme into opera-

tion?

**Major Douglas:** I do not, in any case, assume that the existing system is successful. I should think that it was a matter of common observation that it was not. So, what I say is that there can only be two possible theories as to why it is unsuccessful, one is that there is a definite lack, a deficiency, in the total amount of purchasing power available, which is my theory; and the other is the orthodoxy theory that there is no deficiency in purchasing power, which means that there is mal-distribution. If we admit the second thing is true, then we proceed to deal with mal-distribution where it occurs in the greatest obvious degree.

**Mr. Ashwin:** Then I can take it that it is really your belief that our economic troubles are caused by the defects in the monetary system?

**Major Douglas:** Yes, but that is not admitted and, therefore, I will not press it.

**Mr. Ashwin:** Notwithstanding the other fundamental factors, such as are set out in great wealth of statistics in such publications as are put forth by the league of Nations, where they trace a tremendous number of factors, such as lack of balance and disorganization in the production system?

**Major Douglas:** I should call them symptoms, not causes.

**Mr. Ashwin:** Is it not the other way around?

**Major Douglas:** I say that the monetary system is a cause and those other things are the symptoms.

**Mr. Ashwin:** There was a point raised by Mr. Massey regarding which I should like to ask a question. As you are aware, New Zealand economics are based largely on export trade in primary products and it will be generally admitted that the depression came to New Zealand to a heavy fall in those prices. New Zealand has undoubtedly suffered from a contraction in real purchasing power in the sense of a large quantity of wool, butter, etc., is now required to cover our overseas debt charges and owing to the fact that prices of goods we sell abroad have fallen considerably more than prices of the goods we buy abroad we are now able to buy only half the quantity of imports we could buy in 1929. Those are basic factors generally admitted here.

**Major Douglas:** I should admit them at once.

**Mr. Ashwin:** Having regard to those facts, this contraction of real purchasing power is undoubtedly a vital factor in our present troubles. Now what I want to ask is—bearing all those facts in mind, that the whole key of the situation is based on them—in what way can this proposal of yours or your larger proposal which you have not elaborated here be applied in New Zealand to overcome that loss?

**Major Douglas:** The only real purchasing power you have lost is in regard to the things which have not been produced which could have been produced, and those which are in the form of exports.

**Mr. Ashwin:** Assuming that we are producing to capacity in regard to primary production; where we have lost is that we have to give away more pounds of butter, more bales of wool, to get the same quantity of goods and so the real purchasing power of our actual production has gone.

**Major Douglas:** It has gone by a great many other things than that.

**Mr. Ashwin:** Can this scheme or any other scheme for alteration in the monetary system in New Zealand overcome that defect?

**Major Douglas:** I can tell you how to get more purchasing power: put your pound up to the parity of sterling.

**Mr. Ashwin:** We would not be any better off then.

**Major Douglas:** Why?

**Mr. Ashwin:** Is it not a fact that the question of the exchange is entirely an internal question?

**Major Douglas:** You would not suggest that the mathematical and exact rate of exchange is 25 per cent. below sterling. You would not suggest that the mathematically ascertained purchasing power of your New Zealand pounds is really 25 per cent. off the pound sterling? May I shorten it by saying that what you have really done is to put an export bounty on sterling prices.

**Mr. Ashwin:** Quite so, but that is quite apart from the question. What I am getting at is that in the London market where we go to exchange our goods on a barter basis we get less than we were previously getting and that is a vital factor in our present troubles and I cannot see how that can be overcome by any juggling of the monetary system in New Zealand.

**Major Douglas:** Well, I am perfectly certain that the first step to improve your position in New Zealand is to increase your general purchasing power, so as to broaden your general basis of production. By increasing your general purchasing power you will ultimately tend to create a demand in New Zealand for things which can be produced in New Zealand. In other words new industries would be started.

**Mr. Ashwin:** You are talking now of our internal industries, but what I am speaking of is the loss which we have suffered through a slump in the London market.

**Major Douglas:** It is only a monetary loss.

**Mr. Ashwin:** It is a real loss, we are so many pairs of boots less.

**Major Douglas:** We can go on like that forever.

**Mr. Nash:** Taking the value of Bank shares originally purchased at par, a buyer goes along and buys them at, say, £4. You propose to allow a rate of interest at 6 per cent. Does that mean that the person who buys the shares at £4 pounds has to be satisfied with less?

**Major Douglas:** That is quite definitely one of those questions

which come within the range of policy; it is not a matter of technique at all, if you feel that there is a question of equity involved.

**Mr. Nash:** Personally, I feel that something should be done in regard to a matter of that kind.

**Major Douglas:** Where any question of hardship comes in I should certainly regard that as a case for compassionate compensation.

**Mr. Nash:** Many people in New Zealand have Bank shares because they are their all and they know that they are a very safe investment and if there is a loss to them you would say that provision should be made to meet cases of that sort?

**Major Douglas:** I should think it would be highly desirable, but it is a matter of no difficulty whatever.

**Mr. Nash:** It might be a very serious matter for the

[Page 28]

Bank of New Zealand shares in regard to the profits which you propose to use.

**Major Douglas:** I do not think it is a serious matter at all, if you will recognize that what is intended is simply to increase the available amount of purchasing power in the country. If a man has the share which is alleged to be worth £4, it only means he has something which has a price value.

**Mr. Nash:** He has paid for it.

**Major Douglas:** He is party to the purchasing power to the extent of £4. If the amount of purchasing power is sufficient in the country you can use some of the additional purchasing power that you have created to compensate them. That is a matter of policy. Presumably if anyone buys shares, unless they are speculators, they buy them for the return they get from them and therefore, if you cut his interest down on what he paid for the shares from 15 per cent. to 6 per cent., if that is a practical difficulty there is no difficulty whatever in creating sufficient purchasing power to make up the capital difference between the price that he paid for the shares and the price which they will now fetch on the market. I gave two or three other points in regard to the matter from the point of view that his shares so far from being worth £4 might, in two years time be worth only £2. I may say quite frankly that the whole of my propositions every time are with a view to changing over to a new state of affairs without shock, and it is my opinion that in changes of this kind, the interests which oppose them, if they do oppose them, should realize that there should be a change, but so far as this specific case is concerned, I can very easily make a proposition by which you can compensate the owners of the shares.

**Mr. Nash:** Another question: assuming the action was taken on the lines laid down in your suggestions to the Committee, might not the banks limit their credit to their customers?

**Major Douglas:** You suggest that the Banks would penalize the public as a result of these proposals?

**Mr. Nash:** Well it has happened before in several well-known financial crises, by those means. Another point: Assuming that the banks are paying 3 ½ per cent. and they find all of a sudden that certain monies are to be taken by way of reducing interest in overdrafts, etc. . . .

**Major Douglas:** Certain monies?

**Mr. Nash:** Certain profits of the Bank are to be utilized by your suggestion here today by way of reduction of overdraft and also by way of reduction of interest. Taking the fixed deposits?

**Major Douglas:** They have done that in England now—you only get one percent on fixed deposit.

**Mr. Nash:** But they have not adopted this scheme.

**Major Douglas:** Well, that is all the worse.

**Mr. Nash:** One other question: in regard to the Insurance Companies, you propose to use their frozen assets in the way suggested. This country is subject to earthquakes (fortunately we have not had one this morning) and these assets are held by the Insurance Companies against probable loss. Suppose we had a big upheaval in New Zealand and the companies were called upon to find the money and it had been distributed in these shares?

**Major Douglas:** The physical assets of the country are the only basis for the existence of any monetary value at all. Money is of no value apart from physical assets; if there are no physical assets left in New Zealand, there ought to be no money.

**Chairman:** On behalf of the Committee I should like to thank Major Douglas for the time he has given us.

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