

In 1839 John C. Calhoun who had orated for Biddle's Bank made his great speech in which he repudiated Hamiltonism and declared that the work of separating the Government from banks must be completed. The Southern agrarian political and economic philosophy which he then articulated was definitely in favor of decentralized finance.

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The summary of Lincoln's financial views was made by the Hon. G. G. McGeer of the Canadian Parliament and has been checked for fidelity to Lincoln's writings by the Library of Congress Legislative Reference Service, which reported that "the statements . . . are not in Lincoln's own words, but they represent his monetary views as recorded in his writings."

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The South—the Nation's Economic Problem Number One. The National Emergency Council Report showed that the vital assets of the South were high: thirty-six million population and a higher birth rate than in other sections. Physical assets were also high. The South led the world in production of cotton, tobacco, and naval stores, led the nation in raw fur, phosphates, and sulphur production, produced two-thirds of the nation's crude oil and natural gas, had considerable resources in minerals, forests, fish, and game. Yet amidst this plenty Southerners lived in squalor on Tobacco Road. They did not get, in 1938, enough to eat, many farm-operating families averaging annually only \$49 on the purchase of food. They were ill-clothed; in many a family a total of only \$14 per year was spent on the husband's clothes, a total of \$15 on the wife's. As for houses—about four million families should be taken from their dilapidated shelters and rehoused. The reason for this destitution was lack of purchasing power. "In 1937 the average income in the South was \$314; in the rest of the country it was \$604, or nearly twice as much."

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"The crime of '73." Pro-bank writers point out that the Coinage Act of February 12, 1873 had been before Congress for nearly three years, and marvel that the silver advocates were unaware of the omission of standard silver dollars from its provisions. Nevertheless, there was something stealthy about its passage. As one economist observes, "if the 'sound money' men knew [of the omission], they did not confide in the inflationists." One Congressman is on record as saying that he doubted if three members of the House knew that the Act demonetized silver.

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The Bland-Allison Act of 1878 provided for the purchase and coinage of not less than two million and not more than four million dollars worth of silver per month. Secretaries of the Treasury kept to the minimum figure. The effect of the silver coinage was partly offset by the decreasing volume of national bank notes.

The Sherman Silver Purchase Act of 1890 authorized the Secretary of the Treasury to purchase four and a half million ounces of silver bullion each month and to issue in payment thereof Treasury notes redeemable in gold or silver.

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Social progress comes about through the interaction of three forces. First, the positive action of the Few, the Innovators, the Energetic Minority who have a clear vision, a precise knowledge, an iron determination; second, the passive action of the Many, the Conservators, who offer mass-resistance to innovation; third, the neutralizing action of something the great mystics called the Third Force. They said that mankind is "third force blind," and that is why men's foreseeing of the outcomes of their actions is so faulty. Revolutionary social engineers like Lenin had a glimmering of the Third Force. They recognized the "fuse" in what they called a "revolutionary situation."

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There is pathos about Kitson's last years. He was stronger in destructive propaganda than in constructive proposals for economic reform, and his own producer-credit-control idea was riddled by C. H. Douglas in *Credit-Power and Democracy*. Kitson never finally embraced any one scheme, and he fell behind the progress of English monetary thought. In his old age, he was uncritical in accepting the Jewish International Banker myth and gullible about Hitler's promises of financial reform. Up to the early nineteen-twenties he was a stalwart; after that he became reminiscent and fell to pottering around among monetary ideas. He died in 1937.

CHAPTER SEVEN

Herbert Agar's financial insight in *The People's Choice*, 1933, wavers a good deal. He is unjust to Jackson in calling his attack on Biddle "financial demagogy." In this book Agar is writing from a modified Distributist (Belloc-Chesterton) point of view. He is nostalgic for agrarian America, consistently anti-Hamilton, and troubled by doubts of democracy. The book was written during some years when Agar was living in England, and the ferment of monetary reform there evidently affected him to the extent of recognition by him of the importance of money in history, although he never achieved, as *The People's Choice* reveals, a coherent and definite monetary position. The closest he came to forming conclusions was in an article entitled *Social Credit and the Foreign Trade Dilemma* (*The New Statesman and Nation*, London, June 24, 1933) but he was gingerly to a degree in handling the topic as the following extract shows:

If, aside from problems of detail, this proposal for national dividends seems too audacious, it is only fair to recognize that it is not audacious unless the possibilities of machine production have been grossly over-rated. If it be true that the Western world can now produce (or procure in exchange) all the raw materials, all the manufactured goods, and all the agricultural products that it can desire, and that it will soon be able to produce these with less than 50 per cent of the available labor supply, then a system of "Dividends for All" seems logical.

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In his speech at Oslo on February 14, 1935, to H.M. The King of Norway, H.E. The British Minister, and the President and Members of the Oslo *Handelsstands Forening*, Major C. H. Douglas said:

It is not too much to say that the whole economic and financial system in its present form stands or falls by the contention that the present price system is self-liquidating, that is to say, that no matter what price is charged for an article, there is always sufficient money distributed through the production of that or other articles to buy the article and therefore there is nothing inherent in the system, so far as the price system is concerned, to prevent the process going on indefinitely.

Paying no attention to the analytical proofs that the price system is *not* self-liquidating, Stuart Chase in *Where Is the Money Coming From?* supposes it beyond debate that the price system is self-liquidating merely because most economists say that it is.

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In a speech at the Institute of Public Affairs held by the University of Virginia in the summer of 1936, Mr. Paul Hampden clearly elucidated the effect upon purchasing power of the investment of savings. His conclusion was put with admirable neatness.

A considerable proportion of capital goods produced is financed, not with bank loans or bank purchases of securities—that is, not with newly created money—but with the savings of the community, either the personal savings of individuals or the undivided profits of business enterprises. In other words, a unit of money, having been created by the banking system on loan, may circulate more than once through the industrial system, each time evoking a unit of production and a unit of cost, before it is repaid to the banking system. But in the repayment only one such unit of cost can be cancelled: to wit, when the money is finally exchanged for some article for ultimate consumption, and the producer repays his bank loan. All the other costs evoked but not yet cancelled will remain accounted to the remaining unsold articles—unsold, that is, as regards the ultimate consumer—while, if a new unit of money is created, still another cost will be incurred the moment it is placed in circulation . . .

The national income over any given period is already represented in the cost of goods on their way to market. If any portion of that income is "saved" and invested in further production, it forms the minimum price which the new goods will bear when they come to market. True, the money thus "saved" and invested will be paid out again in the course of the new production, and in so far as this second series of payments is for wages, salaries, and dividends, the same money can be used to buy the original ultimate commodities which the investor did not buy because of his saving. Whereupon, having completed its "double circuit" through the productive system, the money will be cancelled out of existence in repaying a bank loan, just as if it had never been invested in the meantime. (Moreover, not all of the sum invested *will* be paid out a second time as wages, salaries, or dividends. Some of it will be cancelled outright. This is because some portion of the money invested must go to pay for materials, and of that portion the greater part will be either cancelled out of existence as the producer of these materials repays his bank, or will be placed by him to reserves in anticipation of future costs—costs which will involve a similar series of payments to other producers.)

But the money value of the entire investment must now be recovered in prices for future consumers' goods, for at the very least the replacement value of the new plant must be recovered in depreciation charges. Generally speaking, *more* than the original sum invested must be charged into future prices. Take the case of a man who buys a bond, issued, let us say, to finance the building of a factory. Not only is the bondholder guaranteed his principal back after a certain number of years, he is guaranteed a *return* on the investment in the meantime, and of course there are still the depreciation charges. All these items, plus the payments for wages, salaries, and raw materials made after the plant is built and in operation, will enter into the prices of goods produced in that factory. The wages, salaries, and raw materials will be paid with bank loans, which will create money equal to that portion of the price of the product. But the repayment of principal, plus return on the investment, plus depreciation, will still remain.

We may put it down as axiomatic that any investment out of income increases the total of costs to be recovered in prices, without putting an equivalent amount of purchasing power in circulation. And of course any reinvestment of maturing principal simply "pyramids" the process.

A number of other examples of the "double circuit" of money will suggest themselves: for instance, the reinvestment by industry of undistributed profits—what we might call saving and investment *within* industry. Viewing industry as a whole, money profits, including interest, can be made, and depreciation and capital charges be met, only by taking from the consumer, in the prices he pays for end products, part of the money which is currently being disbursed to him in the production of goods which have not yet reached his market. It makes no difference whether that money is then accounted to surplus or distributed to shareholders. If it is reinvested before it has cancelled the original cost, two costs will be created, of which only one will have been cancelled when the credit itself is finally destroyed in repaying some bank loan.

We may generalize the whole situation as follows: three elements, exclusive of profits and interest, go to make up prices:

- (1) Debt claims arising from the creation of new money by the banks;
- (2) Debt claims arising from the investment of savings (old money);
- (3) The claim of fixed capital to reproduce itself.

But only one of these elements is countered by an equivalent distribution of new money, and that is the first one.

To my knowledge, neither Dr. Hansen nor any of his associates has ever paid the slightest attention to an elucidation like Mr. Hampden's; yet it makes completely untenable the Hansen proposals for a prosperous post-war America.

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Diagrams and charts are so useful in conveying the meaning of the A + B Theorem that one more will not be amiss. It was prepared by John Hargrave, the Founder and Leader of the Social Credit Party of Great Britain and North Ireland. When the figures in the extreme right-hand column are totalled, they come to 126, which is also the total of A payments (63) in the serial production represented and of B payments (63) in the cycle.

A SIMPLE "TIME-LAG" CHART
Showing how "B" Costs have all appeared as "A" Costs "at Some Time or Other."

Horizontal Over-All Time Period (Sometimes called the "Long Run.")
from the Beginning to the End of the Costing Process

Modern Multi-Stage Production	Vertical Moments of Time. (i.e. "Any Given Moment.")					
	I	2	3	4	5	6
Factory No. 1.....	B A + B	A + B	A + B	A + B	A + B	A + B
" 2.....	1	2	4	8	16	32
" 3.....	.....	.....	4	8	16	32
" 4.....	.....	.....	.....	8	16	32
" 5.....	.....	.....	.....	.....	16	32
" 6.....	.....	.....	.....	.....	.....	32
(A) Available Purchasing-Power.....	1	2	4	8	16	32
(B) Spent Purchasing-Power.....	.....	.....	.....	.....	16	32
Price at each Moment of Time.....	2	4	8	16	32	64
						63
						126
						Total A + B Cost = Total Price.

In the columns showing Available Purchasing-power and Spent Purchasing-power it will be noted that "B" Costs are always lagging behind "A" Costs. This is the "time-lag."

sense of spent energy, we shall not be wrong. B Costs are debt, not purchasing power.
Again, we often hear that "B Costs have been paid out as A Costs (wages, etc.), by Industry, at some time or other." Therefore, it is argued, A + B are available as purchasing power; and as total costs are exactly A + B, it follows that there is no shortage of purchasing power due to methods of costing. The keywords in this contention are "have been paid out." A Costs have been paid out, and have been spent.
For a proper understanding of the "time-lag" it is necessary to have a clear grasp of two main conceptions of Time:

1. The Horizontal Over-All Time Period, which includes Past, Present, and Future, and is therefore the whole of Time—Eternity. Human beings can be said to live in Eternity, but they cannot function at the "moment" of Eternity; they cannot operate back-and-forth in the Past-and-Future of the Time-Flow. They can only function at—
2. The Vertical Moment of Time—any given moment—now: at the Present Moment. It is said, "There is no time like the present"; it should read: "There is no time (in which it is possible to do anything) but the present."

In very many cases it is the failure to understand these two Time concepts that creates the difficulty in understanding the "time-lag."
When people say: "In the long run all Costs must be purchasing power . . ." they forget "the long run" is Eternity. It is quite true that in Eternity all costs (A + B) are purchasing power. Obviously, they must be. But they are only available as purchasing power to Gods, Angels, Archangels, Spirits, Demons, and other Timeless Beings. That is of little help to mortals on earth, who, unfortunately, can only use the purchasing power available to them at any given moment.
If the chart is read horizontally, it will be seen that the total A + B "purchasing power" is equal to the total A + B Costs. But you cannot spend yesterday's, today's, and tomorrow's purchasing power now—at this moment. What is true of this moment of Time is true of every moment.
If the chart is read vertically, it will be seen that at any given moment there is only a portion of A + B Costs available as purchasing power.

. . .
. . .

In the nineteen-twenties, the ceiling for instalment credit fluctuated between six and eight billion dollars.

. . .

Bankruptcy: According to W. S. Churchill in *Pricing for Profit*, 90 per cent of industrial concerns fail; of the larger ones in existence at any one time, only four per cent are thirty or more years old; the average life of all industrial concerns is only seven years.
In 1930 Major Douglas submitted to the Macmillan Committee on Finance and Industry a chart showing the curve of bankruptcies as an independent variable and the curve of suicides as a dependent variable. Commenting on this striking exhibit, Major Douglas said that "there are no

Explanation of the Hargrave Chart by John Hargrave:
What has been called the "time-lag" remains for many people the stumbling-block in understanding the Social Credit Analysis . . .
We frequently hear people say, "Yes, but in time all B Costs come through as purchasing power." That, of course, is quite impossible. A Costs are becoming B Costs, but B Costs never become A—purchasing power. B Costs are spent A Costs. If we use the word spent in the

statistics of human unhappiness until that unhappiness becomes so unbearable that the sufferer feels that it can no longer be endured, and himself places a period to it by suicide . . . financial worry is the commonest predisposing cause of suicide . . . We can, therefore, deduce from official statistics that the greatest factor in human unhappiness is financial worry, of which bankruptcy may be regarded as the final stage."

Major Douglas's conclusion was born out by a half-column headed "Suicides Reach 15-Year Low, War Credited" in the *New York Herald-Tribune*, August 27, 1941, which said in part: "The Metropolitan Life Insurance Company reported yesterday that there were proportionately fewer suicides in the United States in the last seven months than in any other corresponding period in the last fifteen years. Using its millions of industrial policy holders as a barometer, the company said that the suicide rate from Jan. 1 to July 31 of this year was seven per cent lower than in the same period last year. Its actuaries attributed the decline to improved economic conditions. 'Inasmuch as suicide mortality varies with the business cycle,' they said, 'the decline probably reflects the favorable economic conditions prevailing currently.'"

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Sometimes objectors to the A + B Theorem refer to the velocity of circulation of money as a factor invalidating the theorem. The short reply to this is that no matter how rapidly money circulates, its amount is not increased by turnover. Velocity of circulation cannot overcome insufficiency of amount. Most of those who talk about the velocity of circulation think of money as only passing from hand to hand of producers and consumers; they overlook the journey of money outward from a bank and backward to the bank where it is extinguished, and its cancellation of course breaks the circle of hands around which it is supposed to be travelling.

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The subject of capital charges in prices was exhaustively debated in the London weekly, *The New Age*, in 1937 and 1938, and professional economists are referred to the files for those years. For the lay reader in economics, a simple demonstration by E.W.H. in the *New Age*, April 18, 1935, is appended.

It is sometimes claimed by people who are inclined to admit that there is a gap between total prices and total purchasing power that there is no need for the public to hold enough money to meet capital costs as well as the cost of goods for consumption. The argument is rather insidious because on the face of it, as the public do not want to buy the capital goods, there appears at first sight to be no good reason why they should be able to do so. A little close examination will, however, show that the public are charged with the cost of capital goods whether they wish to buy them or not. Therefore it is a practical necessity that they should be in possession of the money to enable them to meet the capital costs as and when these costs appear in the price of the final products.

A simple example will make the matter clear. Imagine that two identical cars are sold, one to a private owner, and one to a merchant for the use of his traveller, and let both private owner and merchant pay ready money for his car. No one will claim that the money paid by the

private owner for his car is a distribution of purchasing power. The act of buying the car involves a withdrawal of purchasing power from a member of the community in discharge of the costs attached to the car. If the production of the car was financed by bank loans, the money paid for the car goes back through a chain of costs to the bank in repayment of the loan, and if the production was financed by private capital (savings), the money paid for the car restores the amount in the capital account. The object of the motor-car industry has been achieved, a motor-car has been delivered, and the money which represented the costs of making the car has been withdrawn from circulation. The transaction is complete.

With the car bought by the merchant the transaction is not completed. The cost remains attached to the car to be collected from the public in the price of whatever ultimate commodities the merchant may sell. We have postulated that he pays for the car, he therefore makes a payment to another organization—a B payment. Again quite clearly it is not a distribution of purchasing power; it goes back through a chain of costs in the same way as the money paid for the car which was bought by the private owner. If the car is paid for out of private capital (savings), the money is withdrawn from circulation without a corresponding cost being defrayed. If the car is paid for out of a bank loan, a further charge of interest is added to the cost of the car.

The price of the car which is now part of the merchant's capital will be charged into the costs of the goods which he sells, in the form of depreciation, which the public will have to pay for in the price of final products. This the public can only do if they hold enough money to meet capital charges as and when they are called upon to meet them.

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My reference to the increase of world debt, public and private, is inadequate. In the seventeenth century, near the end of which the Bank of England was founded, world debt increased 47 per cent. At the end of the eighteenth century it had increased by 466 per cent, and at the end of the nineteenth century the world debt, public and private, had increased by 12,000 per cent. World debt is now, according to Professor Walter Rautenstrauch of Columbia University, increasing as the fourth power of time. This surely means that the present financial price system is not merely not self-liquidating but actually is decreasingly self-liquidating. Consider also the highly significant fact that in boom periods the rate of increase of debt is greater than in slump periods. See also *Debt and Production* by Bassett Jones, New York, 1933. In this study Mr. Jones showed that the production of producers' goods has risen as the sixth or seventh power of the time, whereas that of consumers' goods has risen only as the fifth power of the time—a useful finding for the expositors of the A + B Theorem.

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A + B As She Works: In the Power Age, B Costs increase and A Costs decline; that is, a greater proportion of charges entering into price are machine costs and plant overheads, and a decreasing proportion are direct labor charges. Reproduced below is a short article by Arthur Brenton entitled *A + B As She Works*, which appeared in the *New Age*, London, January 31, 1935; the statistics Mr. Brenton gives should induce the reflective reader to make a long pause to consider trends of industrial costing.

An accountant [Mr. Brenton wrote] recently allowed me to inspect a set of authentic accounts covering a list of representative enterprises . . . They consisted of itemized analyses of costs of operations in terms of percentages of total cost. For my own purpose I group them in three categories: A—wages, salaries, directors' fees; B—all external charges (materials, power, fuel, rates, taxes, and other overheads); C—depreciation. (Profits, of course, are not included.)

	A	B	C
Brickmaking	50.00	48.00	2.00
Quarrying	57.20	39.60	3.20
Road Materials	59.60	37.50	2.90
Foundries	62.20	34.60	3.20
Coal Washing	2.45	93.30	4.25
Coking	8.20	82.20	9.60
Blast Furnaces	9.91	86.49	3.60
Steel Ingots (S. Wales)	12.40	84.10	3.50
Steel Ingots (Lancashire)	7.91	89.38	2.71
Steel Rolling (Tin Plate)	3.40	96.60	?
Rolling (Billets)	5.80	94.20	?
Rolling (Rods)	7.61	92.39	?
Electric Supply	5.52	84.02	10.46

In the Social Credit frame of cost-analysis no distinction need be drawn between categories B and C, neither representing payments to persons as incomes. So the two can be added together. To the category A an addition must be made for dividends. Dividends are not shown in the above statements, so must be estimated. Since dividends are always less than profits, an estimate of profits will be an over-estimate of dividends. Now if in any trade as a whole the profits made over a number of years are examined, they will be found to average 4% per cent on capital. Some firms will make much more, others much less, and the rest either nothing or sustain actual losses. If a firm turns over its capital once a year and makes 4% per cent on its capital, its profit on turnover is also approximately 4% per cent. If twice a year the profit is approximately 2% per cent—and so on. As the turnover is the sum of all the costs plus profits, the percentage of profit on turnover is also approximately the percentage to be added to cost to get at selling price. Given any cost, this percentage in terms of money will give the entire "purchasing power" distributed as dividends. As most businesses turn over their capital twice (or more) each year these dividends will amount to about 2% per cent on cost, as shown above—a relatively trivial item.

If a trade makes more than 5 per cent on its capital, this rate of profit is almost automatically regulated downwards by a flow of fresh capital to that line of trade. Often this inflow of capital is excessive, whereupon the excess is weeded out through reconstructions or counteracted by bankruptcies in other trades.

As an indication that the figure of 4% per cent is the conventional top limit to the rate of profit on capital, it should be noted that on the Stock Exchange the shares of enterprises making 5 per cent and over usually jump to a premium.

Assume, then, that profits average, say, 5 per cent on total costs

(A + B + C) in the above tabulation, and that the whole of them are distributed as dividends, the figures of each trade can be corrected in column A by adding 5 to those now standing. Thus, as examples, the figures of the two trades showing respectively the highest and the lowest proportion of wage costs will be, firstly:

	A	B	C	Total Price
Foundries	67.20	34.60	3.20	105
Coal Washing	7.45	93.30	4.25	105

and secondly, after combining C with B in one category now called B, and reducing the figures to proportions of 100, the figures will be, approximately

	A	B	Total Price
Foundries	65.0	35.0	100
Coal Washing	7.1	92.9	100

If, on the same basis, the A column of 13 items is averaged and corrected, the figure comes to 21.4 as the proportion of wages, salaries, fees and dividends in 100 representing total Price. Say, one-fifth of Price represents Personal Income. And that small proportion is probably an over-estimate because it is an unweighted average. It leaves out of account the wide differences between the actual amounts of revenue collected in Price by the various trades. Thus, suppose any two firms, one including A costs amounting to 20 per cent of Price and the other A costs 5 per cent of Price, and the first firm collects £100 while the second collects £500, the combined average ratio of A costs to Price is not 12½ per cent but 7½ per cent. (i.e., £45:£600).

So it is probably not far wrong to assume, for industry generally, that personal incomes are distributed at somewhere about one-fifth the rate that price-revenue is collected (or at least demanded). It may be of interest to note that the ratio of currency in circulation to deposits recorded in the banks is somewhere around 1:6—the currency roughly indicating the rate of flow of *personal* expenditure (the external "long circuit" of effective purchasing power) and deposits the rate of flow of business expenditure (the internal "short circuit" of sterilized purchasing power).

CHAPTER EIGHT

The psycho-mechanical cycle of causation was outlined by Arthur Brenton, editor of *The New Age*, of London. Without understanding this cycle, Emerson intuitively felt the immense power possessed by key bankers in modern times. In *English Traits*, he wrote:

But another machine more potent in England than steam is the Bank. It votes an issue of bills, population is stimulated and cities rise; it refuses loans, and emigration empties the country; trade sinks; revolutions break out; kings are dethroned. By these new agents our social system is moulded.

Kings are dethroned by the Money Power—is that just Emersonian rhetoric? Or is it true, as R. McNair Wilson states it, that "there lingers, un-