Mr. C. BARCLAY SMITH is one of the best known speakers and debaters in the Douglas Social Credit Movement and is the Editor of its official newspaper, "The New Era."

The Hon. D. R. HALL was one of the founders of the Labour Movement, a Member of the Federal Parliament for some years, and Attorney-General for New South Wales during the whole of the period of the War.

DEBATE ON THE DOUGLAS SOCIAL CREDIT SYSTEM

Held at Methodist Church Hall, South Chatswood,
Monday, 10th July, 1933.

CHAIRMAN: Mr. W. J. Clarke.

FOR THE DOUGLAS SOCIAL CREDIT SYSTEM:
Mr. C. Barclay-Smith.

AGAINST: Mr. D. R. Hall.

Mr. Clark introduced Mr. C. Barclay-Smith and explained the conditions governing the debate.

MR. SMITH'S FIRST SPEECH.

As I have only a total speaking time of 30 minutes, apart from that barrage of questions which I know many of you are anxious to fire at us, I propose to dispense with preliminaries and plunge into the subject. It is very difficult to know just where to begin in a subject like this, but to those of you who are unfamiliar with the subject, I would like to say a few words as to what money is.

Some people are still under the impression that the only money that circulates in the community is what we call constitutional money—silver, notes and copper—but actually silver, notes and copper constitute 1 per cent approximately of the money used by the community in its transactions. The other 99 per cent is bank credit or money created for the purpose by the banking system. You see, in the last few years, and particularly since the war, the whole basis of money has altered from what we might call a tangible form—something that you can handle—to an intangible form—something which is created by private institutions and circulated in the community.

The law takes a very serious view of, we will say, a coiner or a forger. Obviously a man who could print a million £1 notes and escape detection (which is rather difficult!) would have a claim against the community's assets to the value of £1 million. Now, the banks do not print notes or make coins—at least, I hope they haven't come to that yet!—but they *create bank credit which functions precisely the same as money*. In fact, it is an axiom of banking that money and bank credit are interchangeable terms. By issuing money in this way as a debt to the community, obviously they can do precisely what the coiner can do—*establish a claim against the community's assets to the volume of the credit which they issue.* And that is what has come about today, not only in Australia, but in every civilised country in the world in which the modern credit system functions. What has happened is that the banks have secured a mortgage over almost the entire assets of Australia, and for all practical purposes—looked at from the point of view of cold-blooded equity—the only difference between the banking system in coining credit or issuing credit and the coiner in following his nefarious practice in a cellar is that the banks run no risk of apprehension.

Remember this: *that every penny in the community begins life as a debt to the bankers.* I want to repeat that, because that is the issue; that is vital. All money has its origin in a bank debt and must be repaid, plus interest for the accommodation. Remember, too, that banks are just as much private institutions as Benjamin and Coy. up the street or the hotel across the road. What would we say to a condition of affairs in which, for instance, Anthony Horderns had a monopoly of the issue of clothes; they issued those clothes in the form of a loan and demanded that the clothes be given back to them plus more clothes by way of interest. Obviously, Anthony Horderns being the only source of supply of clothes, assuming that for the moment, we would be obliged to go back to Anthony Horderns to borrow further clothes to pay the interest on the original clothing. Such a position would be grotesque, but it is on all fours with the banking system. *We are obliged, banks being the only source of money, to go back to the system to borrow money to pay interest on the money already borrowed!*

INVERTED PYRAMID OF DEBT.

So you see that it is impossible for the community to escape incurring a huge volume of debt—a colossal, inverted pyramid of debt—which has grown to a prodigious figure, particularly in recent years. I have here a few figures which will just give you some indication of how it has grown. This is what we call the inverted pyramid of debt (indicating on diagram). I have just given the approximate figures. Here we begin in 1860. Australia's national debt—of course, Australia was not then a Federation, but the aggregate debt then was £12 millions. *It tends to slightly more than double every ten years under your present system*—remembering as your basis that all money has its origin in a bank debt—and it slightly more than doubles until we get to 1930, when it was £1115 millions and today it is £1187 millions. I do not know what it will be tomorrow, but I can guarantee one thing: that it will be more, not less, because it is necessary for the nation to go back to the one and only source and borrow money to pay the interest.

In fact, you have the spectacle—a most Gilbertian spectacle—*of the New South Wales Government borrowing the money to pay the interest on its sinking fund for debt redemption!* I do not know if there is anything more amusing than that. This system has reached an impasse where it is threatening to break down.

AUSTRALIA'S DEBT.

1860	£12,000,000
1870	25,000,000
1880	50,000,000
1890	155,000,000
1900	197,000,000
1910	258,000,000
1920	778,000,000
1930	1115,000,000

I put that in the form of an inverted pyramid because as we go on it gets greater and an inverted pyramid must ultimately collapse; and if we do not make very radical changes in our financial system that pyramid will collapse to the discomfort of not only the people, but of every State and nation in which such a system functions.

So absurd is the system that interest on the national debt increases at the rate of £110 *per minute,* and during the progress of this debate, it will have amounted to something like £15,400. You can work out for yourself what it amounts to in 24 hours, but it is a colossal sum.

Now, what assets do the banks create their financial credit against? Obviously the banks create this credit against the assets of the community. Who creates those assets? Do the bankers or the community? Do the bankers provide the material which houses the people of Australia? No. Do they build the houses? No. Do they actually build the factories and equip them with machinery? The answer is again, no. Do they clear the open spaces, fence the farms, and plough and harrow and bring the great primary wealth of Australia to fruition. The answer again is no.

What *do* the banks do, then? All that the banks do is to issue *financial* credit against the *real* credit created by the combined activities of the community. What they actually do is a very simple and effortless performance as compared with the great work that is required to bring the great assets of Australia into being. But our present money system—*financial credit commanding all other forms of wealth—enables the banks to get a mortgage over all these assets created by the community, in which the banks had no say, or made no contribution actually to their physical creation.* I stress this point because it is the basis of the whole subject. The Government Statistician in his recent report made no reference to the question of who owns the community's credit. The people who make it possible—the farmer who, during the course of a period of years, through the ravages of fire and flood and pestilence and drought, brings his farm into production: what happens to him? Is there any justice in a system whereby, after all those years of toil, the farmer finds himself bankrupt? Ninety-five per cent of farms today are virtually owned by the banks, who did nothing actually or physically except create the *financial* credit against the *real* credit created by the community. *The Douglas point of view is that what has been done in the way of creating financial credit by the banks, and thus putting the nation into hopeless mortgage to the banks, could have been done, and should have been done by the nation for the people.*

BANKS DO NOT LEND DEPOSITS.

The banks are now playing a rather Pharisaical role of perpetuating the fiction that banks lend deposits and that bankers are only the custodians of the depositors' money. That is an obvious and an elemental untruth. Banks do nothing of the kind. I have here, out of last Thursday's "Herald," an advertisement issued by the Bank of New South Wales—"All industry is financed by savings." Very little of industry is financed by savings today. Practically all industry is financed by loan credit issued by the banks—created by the banks for the purpose. The advertisement says lower down that "the savings entrusted to the bank stimulate production and develop the trade of the country."

The implication of that is that the banks lend deposits. I do not think you need to make a very serious study of this subject to convince yourself that the banks lend nothing of the kind; that when banks lend money no depositor's money whatsoever is touched. Ask yourselves: have you heard of anybody whose deposit was reduced one penny notwithstanding the great volumes of loan credit which are issued by the banks? I will give you some authorities. There are scores of them, but these will serve on this question of "What do the banks lend?" That, too, is a vital issue: *The "Encyclopaedia Britannica," under the heading of "Banking and Credit," says: "Banks create credit. A loan made by a bank is a clear addition to the amount of money in the community." The MacMillan Report, on which nine bank directors sat, on page 34 says: "The bulk of bank deposits arise out of the action of the banks themselves by granting loans," and McLeod's "Theory and Practice of Banking," one of the usual text books on banking, says: "The essential feature of a bank is to create and issue credit and this credit serves as money. A bank is not an office for the borrowing of money and the lending of money. It is a manufactory of credit and credit is money."*

There are several other authorities, but I think they are ample for my point. To anybody in doubt on the point I commend the study of the subject, and there is only one conclusion at which they can arrive. According to the constitution, nobody except the Crown has the right to manufacture money, but in recent years this function of the Crown—what we call the prerogative of the Crown—has been usurped by the banking system, by the introduction and intrusion of this new money—bank credit—a factor which has enabled the banks to put the nation hopelessly and irredeemably into debt to the banking system, with the result that we are brought to an impasse of debt, when everything stagnates, when nobody can meet their contractual obligations.

THE DOUGLAS PROPOSALS.

Now, the Douglas Proposals aim to remedy this condition by a few simple fundamentals. 1. *By the restoration to the Crown of the Crown's constitutional right to create and issue all money. 2. By the issuance of this money scientifically and systematically so that money will reflect the physical facts of life; so that there will be a relationship between production and purchasing power; so that we can get away once and for all from the twin evils of inflation*

and deflation; and so that all the goods produced can be sold. 3. As it is impossible for the productive system to release sufficient money to effect this equation between money and the potential productive capacity of the nation, and as the disparity between the money released through production and the volume of goods that are offered for sale tends to grow with every machine that is introduced, then it becomes *necessary to supplement the community's money by the issue of a national dividend and a price discount system.* 4. *Portion of the additional money required will be used to effect a reduction in prices, that is, the sale of goods below cost, and those retailers who are willing to enter into such a contract with the nation will be reimbursed for the price discount involved by the nation by what we call the National Credit Authority.*

Those are the Douglas Proposals, very briefly, and it is quite impossible at first introduction to grasp the far-reaching significance of those proposals. But from our point of view they are absolutely inescapable, and I will be interested to hear from Mr. Hall in what particular they are unscientific and impracticable. (Applause).

MR. D. R. HALL IN REPLY.

Mr. Barclay-Smith is a practised debater. He knows how much and how little can be said in twenty minutes, and having twenty valuable minutes available to him to explain to you the Douglas credit system he took fifteen minutes discussing the subject of banking in a way that might equally appropriately have been the preliminary to an address on Sovietism, single tax, or bi-metallism. I could not help thinking as I was listening to Mr. Barclay-Smith of those prospectus writers who, when they have anything good to write about, plunge right into it straight away; but when they have a doubtful proposition they speak at large about the glory of the British Empire, the future of Australia, and in the few last concluding words slide gently over the subject which they are supposed to be commending. Of course, I can understand Mr. Barclay-Smith not bringing his hobby-horse out for a trot too early; he was afraid if he exposed it too long to your gaze you would see the weaknesses in the works. His action in thus leaving until the very last minute any pretence of explanation of the Douglas credit system makes it essential for me to endeavour to place before you very briefly a statement of the Douglas credit system before I proceed to criticise it.

WHAT IS THE DOUGLAS SYSTEM?

The contention of Douglas is this: that no industry provides a sufficient amount of money to those employed in the industry to purchase the products of the industry. He says that in order to run an industry there are two kinds of payments that have to be made. One he classes as "A" payments—wages, salaries and dividends.

Q.: I asked when the Bank makes a loan does it increase the amount of money in the community; I am not asking whether it increases production?—It does not increase the amount of money in the community.

Q.: If a man deposits in the bank £10,000 as a deposit, the bank then, we will say, lends out £9,000. You say the bank does not create credit. Doesn't that original £10,000 placed in the bank in the first instance by the man who deposited it immediately assume purchasing power of £19,000; in other words, the £9,000 the bank lets out creates £9,000 which never existed before?—No, the bank is merely a conduit pipe to convey the money of the man who sells his goods and has £10,000 over to the man who wants to borrow it on approved security That is all the bank does and that is all the bank gets paid for.

Q.: In view of the fact that the national currency in Australia amounts to less than £60 millions, are you prepared to deny that booms and slumps depend upon the expansion and contraction of the credit at the will of the banking fraternity?—No, I am not. I say it is not the question of the amount of money in the community that counts. It is the speed at which that money changes hands from one to another. There is the same amount of money now in the community as there was in the best year, say, in 1919, but the fact of the matter is that everybody is today hoarding his money; of course, when I say everybody, I mean everybody who has money. If any of you would take the trouble to study some of the graphs you will be surprised at the rapid rise in the amount of fixed deposits and hoarded money. There was never anything like it in the history of this country before. They start here (indicating graph) in 1920 with the amount of fixed deposits in the banks of this country at 102 millions and they go up and up in a way never equalled in our history before, until in 1932 they reach 190 millions. This occurred because when the people lost their confidence they would not let their money out; they put it in the bank.

Q.: How did they lose their confidence?—That is not material to this issue tonight; the issue tonight is the Douglas credit system. The fact is it is there, and for the purposes of this debate, that's all that matters.

MR. BARCLAY-SMITH'S FINAL SPEECH:—

I am afraid it has been very heavy weather tonight in arguing this question with Mr. Hall, as we have been at cross purposes on what I would have thought would be common ground, the question of the issue of bank credit. Mr. Hall has treated the authorities I quoted with more or less contempt, so much so that I must again draw your attention to the authorities on bank credit which I read.

Encyclopaedia Britannica, 17th Edition, under the heading of "Banking and Credits," says: "Banks create credit. A loan made by a bank is a clear addition to the amount of money in the community." I say there is no doubt about that. Now we come to the MacMillan Report, on which Committee nine Bank Directors sat, Page 34. I commend it to Mr. Hall. "The bulk of bank deposits arise out of the action of the banks themselves by granting loans." That is perfectly emphatic. There is no doubt on this issue and I say, with all deference to Mr. Hall, that he has not thoroughly informed himself upon it. There is a further authority—McLeod—and I might say I have in my office, and would show them to Mr. Hall should he pay me the courtesy of coming along, something like 25 to 30 authorities on this very point—authorities about whom there can be "no possible shadow of doubt," as I think it says in "The Mikado." McLeod's "Theory and Practice of Banking" says: "The essential feature of a bank is to create and issue credit, and this credit serves as money. A bank is not an office for borrowing and lending money; it is a manufactury of credit and credit is money."

That is a fundamental of the whole subject we are discussing. We Douglas people say that the money system, originating in this way with private institutions, must inevitably put the assets of Australia or any country functioning under that system into mortgage to the banks and result in a hopeless burden of indebtedness and interest to the people who carry that burden. That is inevitable. Now, the world crisis is largely an impasse of debt and we are looking for escapes from it.

There are crude attempts being made by America—straight-out inflation—but we say there is a scientific way out, avoiding the evils of inflation, giving the community a plethora of purchasing power, if you like, up to the hilt of the nation's capacity to produce goods and services, which is unlimited. Provided the money we issue bears a relationship to the goods and services of this country and the capital assets of this country, then there can be no inflation, and with your just price factor your prices actually decrease.

We use portion of this credit—what we call the social credit of the community—to effect a lowering of prices by a price discount system, which must not be associated for one moment with anything so stupid and uneconomic as a price-fixing system. I feel it is absurd that politicians of the standing of Mr. Holman and Mr. Hall ever attempted anything so uneconomic and arbitrary as price-fixing. The whole system of price-fixing is long discredited, but a price discount system—a uniform price discount over all the goods for sale, enabling the community to control the price discount and the margin of profit, so that there will be no exploitation—that is quite a practical and a necessary expedient.

Then we come to the question of the national dividend, which seems to excite a good deal of mirth in some quarters. You have got to adjust your mind to this fact: that even today it would be utterly impossible by retaining the present financial system to resume prosperity as we knew it—poor as that prosperity was and, for my part, I do not want to go back to it. With the great capacity to produce wealth in this country today I think it is possible to give us a prosperity the like of which makes "prosperities" in the past a mere sham by comparison.

Mr. Ramsay McDonald, in the House of Commons recently, said that no matter how prosperous Britain became, two millions of Britain's unemployed would never work again in this machine age, and that for all practical purposes they must be regarded as "human scrap." We say it is time the banking system or those who resist financial reforms got a proper perspective in regard to this world, and the possibility there is of giving everybody a high standard of living. That is a physical possibility today and the only obstacle to realising that is this stupid, unscientific money system which is lagging hopelessly behind the production system, making it impossible to buy the goods offered for sale.

According to the International Labour Bureau of the League of Nations, 14 million people in Europe will not find a place in industry again under the best conditions. The Washington Bureau of Statistics estimates that 50 per cent. of the working population of the U. S. of America, even on the basis of the 1918-19 levels of production, are permanently displaced from industry. I gave you the figures for Australia—we have increased primary production 54 per cent. with 37 per cent. less labour. What are we to do in the face of a certain eventuality—that as we go on the possibility of obtaining employment and wages and salaries is becoming less and less. What is the alternative?

Interjector: Reduced hours.

Reduced hours will not produce purchasing power—not under this system. We can halve purchasing power by a system of reducing hours and we will all be on a lower standard of living than today, which, heaven knows, is low enough. What are we to do? Are we all to go on the dole? Is this generation and its children finally to end up as "human scrap"? Surely man's resourcefulness can conceive of something better and more scientific in the way of a money system than that, to give us a claim on the great wealth which can now be produced!

Contrast that hopeless prospect with the Douglas Proposals of which Mr. Hall has spoken so scornfully tonight. I will just summarise some of their advantages: 1, They make it possible for industry to be stimulated to the limit of the community's needs, thus ensuring a profitable industrial system and a highly prosperous people. 2, They provide a practicable means of getting away from the impasse of debt without any resort to repudiation. 3. They will

make it possible for all contractual obligations to be fulfilled. 4, They spell a scientific farewell to the twin evils of inflation and deflation and the national and individual ruin which attend them. 5. They will enable Australia to enjoy the full benefit of machine production and so usher in a golden age of leisure with greater opportunities for the pursuit of health, happinses and cultural development. 6. They involve saying "adieu" to taxation and the blighting burden of interest and usury, and, finally, the Douglas Proposals will give something to everybody that is enjoyed by relatively few people in this world—economic security. Now, if you are not prepared to accept the principle of a national dividend, then all the goods produced for sale will not be sold, industry will stagnate to its death, and this civilisation will return to a dark age.

But, if I judge the rising temper of the people aright they will not rest until they get control of the money system and use that money system scientifically so that the great abundance that this world can now produce can be distributed. They will not rest until money becomes a servant of man instead of a tyrannical master. They will not rest until this absurd and hopeless impasse of debt is wiped out altogether. They will not rest until dole degradation is replaced by a national dividend and greater leisure, enabling the people to make a decent, happy, cultural thing of life instead of what it is—a hopeless struggle for a bare living from the cradle to the grave.

Economists may give voice to their vaporings, politicians—I am not including Mr. Hall in this because he has ceased to wear the mantle—may give lip to their shibboleths and empty platitudes, the bankers and the Press may still continue to pull the veil of ignorance over the eyes of the people, the tuppeny-ha'penny statisticians may still write their tuppeny-ha'penny reports against the Douglas Proposals, but the people of this country and of all civilised nations will demand—it is inevitable that they will demand—a standard of living in accordance with the great productive capacity of the nation, and there will be no rest, no peace, no prosperity until that is achieved. When it is achieved the people of Australia and all other civilised countries will at long last come into their heritage.

MR. HALL'S FINAL SPEECH:—

As I have listened tonight to the fulminations of Mr. Smith and his friends against the banks and have learned from their lips what an extraordinary lot of robbers these bankers are, I have been trying to imagine *what has become of all the proceeds of the robberies by the bankers?* They rob year after year. The bank employees do not get the loot; the bank managers do not get it. The bank manager of the biggest bank in Australia does not get nearly as good a salary as "Mo" gets to tell dirty jokes down at the Tivoli Theatre. The