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TO

PLEASE
AFFIX
STAMP

MONETARY PROPOSALS

of

SOCIAL CREDIT

by

Lucien Maynard

SOCIAL CREDIT
in
"A NUT SHELL"!

Many people ask: "Can you explain Social Credit in a 'nut shell'?"

The answer, of course, is quite obvious. To anyone who understands the principles of banking, the monetary proposals of Social Credit can be explained very easily. Very few of those who attack Social Credit, however, understand the principles of banking, will not take the trouble to learn how the banks operate today, and consequently are in no position to understand the monetary proposals required to implement the basic principles of Social Credit.

This booklet is designed to explain very briefly the operation of our banking system today and the application of the principles of the creation and issue of money and credit to Social Credit. Once a person understands the operation of modern banking, how money is created, issued and destroyed, then it will be possible to understand in a "nut shell" how the principles of Social Credit can be implemented. For those who are desirous of more information than is contained in this booklet, and are prepared to give more time to study both the principles of banking and the monetary principles of Social Credit, we refer them to one or more of the books listed on the inside back cover of this booklet.

MONETARY PROPOSALS

of

SOCIAL CREDIT

A series of short articles dealing with the following questions:

1. How can the basic economic principles of Social Credit be implemented?
2. How is money created and issued today?
3. How do chartered banks operate?
4. What concrete monetary proposals do Social Crediters advocate?

by

LUCIEN MAYNARD, Q.C.

THE AUTHOR

Lucien Maynard

Lucien Maynard, Q.C., is a graduate in Arts of Laval University, Quebec, and a graduate in Law of the University of Alberta. Mr. Maynard was admitted to the Bar of the Province of Alberta in June 1932, and started practising Law in St. Paul in August, 1932.

In 1935, Mr. Maynard was elected to the Alberta Legislature.

In April, 1936, he became a member of Premier Aberhart's Cabinet as Minister without Portfolio.

In January, 1937, he was appointed Minister of Municipal Affairs in Mr. Aberhart's Government, a position he retained until Premier Aberhart's death in May, 1943.

On June 1st, 1943, Mr. Maynard was appointed Attorney General in the Cabinet of Premier Ernest C. Manning, a position he held until August of 1955.

In September, 1955, Mr. Maynard resumed the practice of law in the City of Edmonton.

In 1947, while Attorney General, Mr. Maynard appeared before the Privy Council, the highest Court of Appeal for Canadian constitutional cases at that time, to argue the case for the Alberta Bill of Rights.

In 1954, Mr. Maynard submitted a brief on behalf of the Alberta Government to the Banking and Commerce Committee of the House of Commons.

FOREWORD

The thoughtful reader will find the series of articles which follow most helpful in gaining a clear insight into the present banking system and into Social Credit monetary proposals.

The author, Mr. Lucien Maynard, Q.C., was for 12 years Attorney General of the Province of Alberta. In 1954 Mr. Maynard prepared, on behalf of the Government of Alberta, a comprehensive submission to the Standing Committee on Banking and Commerce of the Canadian House of Commons.

In his presentation to the Committee, Mr. Maynard traced the growth and analyzed in detail the operation of the banking system from its inception and gave to the Committee a clear exposition of Social Credit monetary proposals and their application to Canada's financial requirements.

In this booklet Mr. Maynard has condensed this material into a series of concise, easily read articles from which none of the information value has been lost. They will be welcome reading to every Canadian citizen who desires to see the physical potentialities of this nation made financially possible.

Ernest C. Manning,
Premier of Alberta.

INDEX

What is Social Credit?

Some people think Social Credit constitutes only a promise to pay a dividend of $25.00 a month, or possibly some monetary reform proposals. This is not so. The monetary aspects of Social Credit are merely a means to an end — the method proposed to secure the realization of the fundamental objectives or principles of Social Credit. What are these basic principles?

Social Credit is a doctrine that recognizes that the individual is the most important factor in organized society. As a divinely created being with both spiritual and physical potentialities and needs, he has inalienable rights which must be respected and preserved.

Following from this basic principle is recognition of the following fundamental concepts:

1. Government exists to serve the individual. The major function of a democratic government in organized society is to secure for the people the results they want from the management of their public affairs, as far as such results are physically possible and morally right.
2. The individual has a right to liberty and freedom, that is to say the right to be in a position to make moral choices at will. The individual can only attain his full stature in a society where his ability to make moral choices is restricted as little as possible. Economic security is a necessary means for attaining this freedom.
3. Economic security can only be obtained by enabling individuals to parti-

cipate in the general welfare of society and ensuring that the resources of the country will be developed in such a way that all members of society will benefit. This does not mean Socialism or Communism, both of which subordinate the individual to the State, but it is recognition of the cultural heritage of the individual accumulated throughout the centuries and which is the result of the progress and development of mankind since the first man.

4. To achieve this objective Social Credit believes that whatever is physically possible and desirable, and morally right, can and should be made financially possible.

It is the firm belief of all Social Credit advocates that only the implementation of the Social Credit monetary proposals can ensure the realization of the basic and fundamental principles outlined above.

There are therefore two distinct and yet closely related aspects to Social Credit: First, the basic philosophical principles involved in the recognition of the paramount importance of the individual in organized society, and secondly, the technical monetary proposals required to give effect to these basic philosophical principles.

It is this latter aspect that has created the greatest interest in Social Credit. It is the monetary proposals of Social Credit that have been subject to attack ever since the late Premier William Aberhart started discussing the Social Credit principles and philosophy in the Province of Alberta. It is these monetary proposals which today are once more creating a vital interest in the principles of Social

Credit which are causing everyone to ask: "How can these basic principles of Social Credit be implemented?"

The answer is not difficult — providing one has some knowledge of the operation of the banking system. Too many people will not support the principles of Social Credit simply because they do not understand the present banking system. These same people furthermore have not the time or will not take the trouble to study either the principles of Social Credit or the present banking system and yet they are prone to criticize Social Credit. These same people have not the faintest idea how our modern banking system operates and yet are prepared to accept without any question the existing banking system with all its shortcomings and its ill effects on the economy of the country.

In the articles to follow we propose to explain first the operation of the banking system, how banks create, issue and destroy money, because only with this knowledge is it possible to understand how the basic principles of Social Credit can be implemented to eliminate poverty in the midst of abundance. This will be followed by a series of articles explaining in broad outline the procedure which should be followed to implement the Social Credit monetary proposals.

PART I

Operation of Banks

The Issue of Bank Notes

The original business of banking consisted in changing the currency or money of one state into the currency or money of another state, particularly for trade or travel. In England this function was performed by the goldsmiths who were the money lenders of the time. The goldsmiths gradually expanded their business to receiving on deposit for safe keeping the gold of their clients or customers and issuing receipts for the amount of gold so deposited. People started using these receipts in payment of their accounts instead of withdrawing the gold. As the goldsmiths discovered what was going on, they gradually started issuing more receipts by way of loans than they had gold in their vaults. When the people discovered the fraud and presented their receipts to withdraw the gold deposited with the goldsmiths, the goldsmiths found themselves in financial as well as legal difficulties. Many were sent to jail for this fraudulent practice.

This practice of the goldsmiths was followed in other countries besides England, and in all countries it was necessary for the state to intervene to protect the public from such fraudulent actions.

The issue of notes to circulate as money was first legalized in England in 1694 when a group of money lenders were incorporated under the name of the Bank of England. The notes issued by the bank were simply a promise by the bank to

pay gold to the holder of the note on demand. These notes constituted in effect paper money redeemable in the gold. The amount of notes issued and circulated by the bank naturally exceeded the amount of the gold reserves. The first issue of notes issued by the Bank of England amounted to 1,200,000 pounds. This was the amount lent to King William by the Bank in 1694.

The bank derived its profits from the interest of 8% paid by the government as well as from the notes it put into circulation. Of the two, the revenues derived from its note issue far exceeded the interest paid by the British Government. By 1696 the bank had actually issued one and three quarter million pounds in paper notes against a cash or legal currency reserve of only 36,000 pounds.

Naturally there were runs on the Bank when the Bank was unable to pay off all its notes in legal tender. Every time the Bank of England faced such a financial crisis, the government came to its assistance and authorized the Bank to suspend payment in cash or gold. There have been many of these crises and in 1797 special legislation was passed authorizing the Bank to suspend redemption of its notes in gold; thus the Bank of England notes became legal tender. In 1921 the Bank of England became the sole source of issue of bank notes in Great Britain. Today the Bank of England is owned entirely by the Government.

Banking in Canada developed along similar lines to the Bank of England. Banking in Canada commenced around 1792 by private banks without legislative authority to issue notes. The first chartered bank to do business in Canada was the Bank of Montreal. Organized as a private bank in 1817 it finally received its bank charter in 1921, which contained the following privileges:

1. The bank was authorized to issue notes to circulate as money without restriction other than the general limit for all obligations.
2. The total liabilities of the bank were not to exceed three times the capital stock actually paid in, over and above a sum equal in amount to such money as may be deposited in the bank for safe keeping. In case of excess, the directors were personally liable.
3. All notes issued by the Bank were redeemable in gold or silver coin (known as specie).

Although the Bank was authorized to issue three times more notes than its paid up capital, plus the amount of specie held on deposit, it was still required to redeem all its notes in specie when called upon to do so. All bank charters issued thereafter contained similar provisions.

After Confederation the Government enacted a new Bank Act in 1870 under which the chartered banks retained the privilege of issuing bank notes. Thus it will be seen that the most important function and privilege of banking in Canada, as in Great Britain, was the right to issue bank notes to circulate as money. It was soon discovered, however, that this privilege was to be replaced with the far more simple process of issuing bank credit (fountain pen money) instead of bank notes. The evolution of banking into the field of expansion of credit in relation to cash reserves was a gradual process until with the institution of the Bank of Canada the privilege of the banks to issue bank notes was finally terminated. This privilege was no longer necessary, or even desirable.

The Issue of Bank Credit

The most important and lucrative privilege of the early Canadian Banks was the right to issue bank notes to be used as money in excess of the amount of specie held as reserves to redeem the notes. In 1841 a proposal to establish a government bank with the sole right to issue notes was opposed by the banks and defeated. However, the government in 1868 issued Dominion notes nnd made them legal tender, thus establishing itself in effect a bank of issue.

The proposed Bank Act of 1870 limited the right of the banks to issue notes to the full amount of their paid up capital. This was the main reason for the opposition of the banks to the proposed Bank Act of 1870. The banks had not yet realized the full extent of the evolution that was about to start, namely; that the importance of issuing bank notes was to be replaced by the far more simple and less expensive process of issuing bank credit. The Bank Act of 1871 maintained the principle of the bank note issue against general credit for which the banks fought in 1870. There was no stipulation as to the amount of reserves required except that one third of such reserves should be in Dominion notes. It also dropped the provisions requiring the banks to limit the total liabilities of any bank to thrice the paid up capital stock, (Section 85 of an Act representing Banks and Freedom of Banking, Ch. 55, 1959 Statutes). At this time banks derived their revenue from three main sources: loans made from their capital, the deposits of specie they had on hand, and the note circulation. Of the three the lending of bank notes provided by far the greatest source of revenue to the banks.

The foundation for the issue of credit was laid in the Act of 1871 when the banks were no longer obligated to limit their total liabilities to three times the paid-up capital stock. There was no restriction whatsoever on the amount of liability that the banks could incur in relation to their cash reserves. Good sound banking practice, however, required some caution in this matter with the result that the banks imposed upon themselves a practical limit of approximately ten percent. It was not until the Bank of Canada Act was passed in 1934 that the banks were required to hold not less than five per cent of their deposit liabilities payable in Canadian dollars, in a reserve which shall consist of a deposit with the Bank of Canada and of Bank of Canada notes held by the bank. The banks were also required to hold adequate reserves against liabilities payable elsewhere than in Canada.

The Bank of Canada was originally established in 1934 as a private institution. In 1938 the government bought all the shares held privately making the Bank of Canada a government owned and operated central bank. The preamble of the Bank of Canada Act sets out its main objectives to be achieved by the establishment of the mechanism to control and regulate the expansion and contraction of credit and to control the currency requirements of the country. The Bank of Canada was also intended to exercise control over exchange operations and to act as the banker for the government and the chartered banks.

With the institution of the Bank of Canada the chartered banks lost the privilege of issuing notes. The method used by the Bank of Canada to exercise control

over the amount of money to be circulated in the country is through the mechanism of the use of cash reserves.

The "money" now used in Canada consists of coin (specie), Bank of Canada notes and bank credit, sometimes called bank deposit money, or fountain pen money. Coins and notes represent only about 12% of the total supply of money. The rest is bank credit money, which accounts for 95% of the business transactions of the country.

The main operations of banks today consist in expanding credit by making loans on which they charge interest. The deposits created by making loans require a reserve in cash of only approximately 10% of the total amount of deposits. The cash reserves consist of Bank of Canada notes or deposits with the Bank of Canada. An increase in their cash reserves will allow banks to increase their deposit liabilities by making additional loans. A decrease in cash reserves will compel banks to produce their deposit liabilities by calling in their loans. The amount of loans a bank may make is also affected by the cash reserve requirements established by the Bank of Canada which, since 1954, may very between 8% and 12%.

Thus in the field of modern banking the most lucrative operations of chartered banks no longer consist in issuing and lending bank notes but rather in expanding credit tenfold in relation to their cash reserves.

Banking System — a Debt Creating System

How is bank credit money issued or put into circulation? By way of bank loans on which interest is charged. Thus practically all money in Canada is issued by the banks as an interest bearing debt resulting in the accumulation of an unpayable burden of debt. Some people, some governments, can repay their debt to the banking system — but only at the expense of others. The TOTAL amount of debt can never be repaid because it is impossible to pay back to the banking system MORE than the banking system puts into circulation. If the banks lend out 1 million dollars amortized at 5½% over a period of 30 years, repayment of the debt would require a payment of $70,500.00 per year or a total of $1,115,000.00 MORE than the original loan of 1 million dollars. It cannot be done throughout the system as a whole because the system as a whole cannot pay back more than it receives. This impossibility to repay debt constitutes one of the great weaknesses of the banking system.

Let us look at some statistics for evidence.

(a) The World Almanac of 1953 gives the following figures for the total private debt in the United States:
1919: 97.2 Billion
1951: 277.0 Billion, nearly tripled!

(b) The consumer debt in Canada has increased from 2.5 billion in 1955 to 4.2 billion in 1961 — nearly doubled in 5 years. (Bank of Canada Review)

(c) The increase in the NATIONAL DEBT OF CANADA since Confederation is most revealing:

Year	Net Debt	Net Debt per capita	Interest Paid per capita
1867	$ 75,728,642		
1913 (pre-war)	$ 314,301,625	$ 41.18	$ 1.65
1919 (post-war)	$ 1,514,531,033	$189.45	$ 9.32
1945 (post-war)	$11,298,362,018	$935.91	$26.42
1960	$12,089,194,003	$678.63	$42.17

(d) In 1952 the total public debt in Canada including the national, provincial, municipal and school debts, amounted to $15,731,347,814. In 1960 this had increased to over 17 billion dollars and the total of all debt in Canada exceeds 32 billion dollars!

The story is the same in the United States, Great Britain, France or any other country.

How then has such a system managed to survive? By the simple process of making further loans to pay off old loans leading ultimately in the periodical wholesale cancellation of debt — both private and public — by bankruptcy, repudiation and devaluation — but the debt to the system still remains!

BANKRUPTCIES: From 1950 to 1959 there were nearly 20,000 bankruptcies in Canada involving one-half a billion dollars in debt cancellation.

REPUDIATION: World history is full of Government repudiation of debt. Russia, Germany, Spain, Greece, Denmark, Austria, Holland, Portugal, Turkey, and even the United States, and some of the States in the Union, have all been guilty of this practice.

DEVALUATION: This subtle and fraudulent means of repudiating obligations has been practiced by every country in the world, including the United States! In Canada, as the result of creeping devaluation, the value of the Canadian dollar in 1954 was only 50% what it was in 1939. The devaluation of the Canadian dollar last May has further reduced the value of the Canadian dollar.

Devaluation as practiced by governments is a subtle form of government theft which has been called at various times "royal subterfuge", "debasing the coinage" or coin clipping, "monetary subterfuge".

Governments feel that the spending of money borrowed today will benefit future generations and that therefore posterity should pay. We are posterity — in relation to our forefathers. Have we paid back the debt incurred by our forefathers? On the contrary, we have increased it many times over. How, then, can we expect our children or future generations to pay — not only the monies we have borrowed — but also the monies that our forefathers have borrowed and that we have neglected to pay?

Let us face the facts —

POSTERITY HAS NEVER PAID! POSTERITY NEVER CAN PAY! Why? Simply because the present banking system is a debt creating system under which TOTAL debt can never be repaid.

You cannot borrow yourself out of debt.

Depressions

The second great defect or weakness of the present banking system is that it was designed during a period of scarcity and is not suitable for a period of plenty. The present banking system pumps money into the economy in the form of loans for the purpose of financing production but it cannot finance consumption. Only loans for profitable production resulting in profit earnings can be repaid to the banking system together with interest. Banks will not lend to old age pensioners because they have not the earning power to repay the loan.

Thus the banking system finances the production of large amounts of consumer goods that cannot be sold for lack of purchasing power — money — in the hands of consumers. This has resulted in cycles of booms and depressions; booms: when business activity and production increase as the result of the short supply of consumer goods and money made available by the banking system to finance the production of goods; depressions: when the stock of consumer goods has been built up to such an extent — without sufficient effective demand — that production has to slow down, people are laid off, unemployment is rampant and consumer purchasing power is drastically reduced.

Economists have witnessed cycles of booms and depressions ever since the industrial revolution. In Canada, there have been about 14 well-defined cycles of booms and depressions since Confederation. It is interesting to note that since 1896 practically every depression has been followed by a general rise in the cost of living or depreciation in the value of the Canadian dollar.

There are four distinct phases in a business cycle: depression, recovery, prosperity, and crisis. Every period of depression or prosperity can be recognized by the following factors:

DURING THE PERIOD OF:

	Depression & Crisis	Recovery & Prosperity
Volume of production:	is down	is high
Business confidence:	is down	is high
Unemployment:	is high	is low
Retail sales:	are low	are high
Inventories:	are high	are low
Wages	are falling	are increasing
Cost of raw materials:	is down	is increasing
Supply of money: (bank credit)	is low	is high
Bank cash reserves:	are high	are low

Harold Loeb, U. S. Director of National Survey of Potential Products, in the book "The Chart of Plenty" has summarized the main cause of business cycles in these words:

"Production (in the U.S.) is curtailed because BUYING POWER IS LACKING".

This shortage of purchasing power is evidenced by two main factors. First — The reduction in total wages in relation to total production. This is due to the development of the machine age, followed by the power age and now by automation. Although the wages of the remaining workers are higher than formerly, yet the increase has not been sufficient to compensate for the loss of wages — or purchasing power — of the workmen laid off.

The second great factor evidencing a shortage of purchasing power — particularly during a depression — is the decrease in bank deposits — or bank credit in circulation as loans. In the U. S. during the depression of the hungry thirties there was a decrease of $16,750,000,000 in bank deposits, due practically entirely to the calling in of bank loans.

This represented a decrease in purchasing power of over 16 billion dollars. Is it any wonder that production was drastically reduced? Industry could no longer sell — even through the device of instalment buying — all the goods it had already produced! A similar situation existed in Canada.

The remedy advocated at that time was the destruction of the wealth already produced so that once these so-called "surplus goods" had been removed, industry could once more put people to work, producing more unsalable goods!

It was at this time that the late Premier William Aberhart, Premier Manning and their Social Credit supporters, protested in the Province of Alberta against the sinful destruction of abundance in the midst of terrible and unnecessary poverty and claimed that the remedy was to be found — not in the destruction of goods — but in providing an increase in the purchasing power of the people. Once the people had the necessary money to buy the goods that were already produced, the so-called surplus would soon disappear and the wheels of industry would start turning again.

It took the war of 1939 to prove that the Social Crediters were right!

War and the Money Supply of the Nation

Before the outbreak of the Second World War in 1939 the Social Crediters were advocating that what is physically possible and desirable and morally right should be made financially possible. They pointed out that Canada had the man-power and natural resources in great abundance to eliminate poverty in the midst of plenty. The only thing lacking was money — purchasing power — and the country was told that the money was not available.

However, this thinking changed completely with the beginning of war in 1939. As soon as war broke out, the money that was unavailable to feed the unemployed and the starving was found in abundance to produce the implements of war — battleships, submarines, airplanes, tanks, guns, ammunition — and all the other requirements of war, including food, clothing and shelter for hundreds of thousands of our young men. Many of these were the same people who only a few months before were riding the rods from one end of the country to the other looking for work — without food, without clothing, without shelter — and without a job. Why then were we able to find overnight an unlimited supply of money for war when up to then we were told that the money was not available to provide for our Canadian people the homes, the food, the clothing that the resources of our great country was able to provide in abundance?

Sir Winston Churchill called attention to this anomaly in his book "The World Crisis". In speaking of the Armistice Day of November 11, 1918, Sir Winston Churchill writes:

"A requisition for half a million houses would not have seemed more difficult to comply with than those we were already in process of executing for 100,000 aeroplanes, or 20,000 guns or two million tons of prejectiles. But a new set of conditions began to rule from 11 o'clock onward. The money cost, which had never been considered by us to be a factor capable of limiting the supply of the Armies, asserted a claim to priority from the moment the fighting stopped".

The economic effect of war on "using up" excess production has been referred to by war writers and economists, but possibly with no greater force than H. G. Wells in his book "The Shape of Things to Come", published in 1933, where he states:

"The war (1914-1918) from the economic point of view had been the convulsive using up of an excess production that the race had no other method of distributing and consuming. . . The postwar increase in war production, which went on in spite of endless palavering about disarmament, did not destroy men, nor scrap and destroy material, in sufficient quantity to relieve the situation. . . The more efficient the output, the fewer the wage-earners. The more stuff there was, the fewer consumers there were. . . This was the paradox of overproduction which so troubled the writers and journalists of the third decade of the twentieth century."

Many people still living today have witnessed the two great depressions of the 20th century and remember that overnight, both ended with the outbreak of a world war. Overnight men found employment in the army or in war industries. Overnight factories were in full operation producing the requirements of war. Overnight the money that was not available to provide food, clothing and shelter for thousands of our Canadian citizens was now available for the production of instruments of war. One day we had no money to prevent thousands of our people facing slow starvation. The next we had an unlimited supply of money to help these same people destroy millions of other people throughout the world.

We have been told that the U. S. economy after the second world war was saved from collapse by the Korean "police" action and the present cold war with Russia.

We may well ask: Why does it take sufferings and heartaches to end a depression? Where does the money that is unavailable to provide food, clothing and shelter in peace time, come from during a time of war to supply the economy of the country with an abundance of purchasing power?

Where did this money come from? This will be the topic of the next article and an understanding of this question will bring us a great deal closer to a full understanding of the means advocated by Social Crediters to implement their basic principles of individual freedom with economic security.

Where Does the Money Come From to Finance War?

In our last article we pointed out that we were unable to find the necessary money before two world wars to provide our people with food, clothing and shelter, but as soon as the country was at war, we had no difficulty finding all the money required for our war effort. As a matter of fact, the Honourable Mr. Ilsley, while Minister of Finance during the Second World War, declared that the limit of Canada's war effort would be determined — not by the supply of money available to finance the war — but by the natural resources of the country and the available supply of manpower. Where, then, did the money come from to finance Canada's war effort?

The answer will be found in the Minutes of the Proceedings and Evidence Respecting the Bank of Canada of the Committee on Banking and Commerce appointed by the House of Commons in 1939. During the hearing Mr. Graham Towers, the former Governor of the Bank of Canada, appeared before the Committee and submitted evidence concerning the operation of the Canadian banking system and the issue of money and credit by the chartered banks. In reply to a question concerning how governments obtain money, Mr. Towers stated (p.29)—

> "A government can find money in three ways: by taxation, or they might find it by borrowing the savings of the people, or they might find it by action which is allied with an expansive monetary policy, that is borrowing which creates additional money in the process".

The borrowing referred to by Mr.

Towers "which creates additional money in the process", is borrowing from the banks. In order to avoid any misunderstanding on this matter, let us again refer to Mr. Towers evidence as given at page 75.

Q.—What the government receives is a credit entry in the banker's book showing the banker as a debtor to the government to the extent of $1,000?

Mr. Towers: Yes.

Q.—And in law all that the bank has to hold in the way of cash to issue that deposit liability is 5 per cent?

Mr. Towers: Yes (p. 76).

Of course the 5% referred to is before the amendment to the Bank Act enacted in 1954. Since 1954 the cash reserve requirement may vary between 8% and 12%.

Lest this matter be not yet clear enough, let me quote Mr. Towers again (p. 238).

Q.—When a $1,000,000 worth of bonds is presented (by the government) to the bank a million dollars of new money or the equivalent is created?

Mr. Towers: Yes.

Q.—It is a fact that a million dollars of new money is created?

Mr. Towers: That is right.

Surely, these statements must be clear enough. Our participation in the two World Wars of the 20th century was financed, first by taxation, secondly by borrowing the savings of the people, and thirdly, by borrowing from the chartered banks.

A few figures might help to understand to what extent NEW money was created during the war to finance Canada's war effort.

In 1938, the year before Canada entered the war, the total money supply of the country, including cash reserves and

bank deposits, but excluding Federal Government deposits and other deposits in the Bank of Canada, amounted to $2,672,000,000.00. The corresponding figure for the year 1946 is $7,210,000,000. These figures indicate an increase in the money supply of the country during the war, NEW MONEY put into circulation to finance Canada's war effort of over 4 billion 5 hundred million dollars! An increase of nearly 200% in 8 years!

This increased supply of money made available by the banking system was used — not to finance the production and distribution of food, clothing and shelter to our needy Canadian citizens, but rather to finance the destruction of the war potential of the enemy. Let it not be said that Social Crediters condemned Canada's participation in the last world war. On the contrary, the Social Credit government of Alberta — even before Canada had formally entered the last world war — took a firm stand on the necessity of Canada entering the conflict to destroy Hitler, but recommended that the war should be financed through the Bank of Canada rather than by borrowing from the chartered banks and thus requiring the government to impose increased taxation on the people to pay both the principal and interest on the monies borrowed from the chartered banks.

Government Loans From Chartered Banks

Why should a sovereign government such as our Canadian Government borrow from a chartered bank — whether for war purposes or to promote prosperity in times of peace? The same question, of course, does not apply to municipal governments or provincial governments because these governments have no jurisdiction to legislate in matters of money, credit and banking. But why should the Canadian Government — a sovereign government with exclusive jurisdiction over the money supply of the country — have to borrow and pay interest to the chartered banks and tax the Canadian people to obtain the money to pay this interest? The chartered banks are creatures of the Canadian Parliament. They owe their very existence to Parliament and must apply to Parliament every ten years for the renewal of their bank charters without which they would cease to exist. They obtain all their rights and privileges from Parliament — including the exclusive monopolistic right to create and issue money. And yet when the government — a sovereign body — an organization representing the entire nation — requires money over and above the money it obtains from taxes, or by borrowing the savings of the people, it must go to its creatures — the chartered banks — and beg for a loan of the very money or credit it has given the chartered banks the exclusive right to create!

Does this make sense? Does it make sense, particularly when it is remembered that the money supply required to finance war is readily made available by the chartered banks, but the money required by the government to provide food, clothing and shelter for its needy citizens in time of peace is not available?

Mr. Graham Towers had this to say on this subject before the Banking and Commerce Committee of the House of Commons in 1939. At page 649 of the Report of the Proceedings, we find the following statements:

Q.—so far as war is concerned, to defend the integrity of the nation there will be no difficulty in raising the means of financing whatever those requirements may be?

Mr. Towers: — The limit of the possibilities depend on men and materials.

Q.—and where you have an abundance of men and materials you have no difficulty, under our present banking system, in putting forth the medium of exchange that is necessary to put the men and materials to work in defence of the realm?

Mr. Towers: — That is right.

Q.—Well, then, why is it, where we have a problem of internal deterioration, that we cannot use the same technique . . .?

To this day this question has remained unanswered, not only by the Bank of Canada, but also by both the Liberal and Conservative Governments.

If there is no problem in the chartered banks making available to the government, by way of interest bearing loans, the monies required by the government to finance prosperity in peace time, as well as in war, then the next question that comes to mind is this. Why should the government have to borrow this money from the chartered banks and impose taxes on the people to pay interest to the chartered banks?

Why should the entire money supply of the country be put into circulation as a debt bearing interest when the government has it within its power to use other methods to ensure that the country will always have an adequate supply of money for its requirements?

These are questions that require close scrutiny, questions the opposition parties have always refused to discuss, except by ridicule. Not so, however, Mr. Graham Towers before the Banking Committee of the House of Commons in 1939. At P. 394 of the Report of the Proceedings we find the following interesting statement.

Q.—Will you tell me why a government with power to create money should give that power to a private monopoly and then borrow that which parliament can create itself, back at interest, to the point of national bankruptcy?

Mr. Towers: . . . we realize of course that the amount which is paid provides part of the operating costs of the bank and some interest on deposits. NOW, IF PARLIAMENT WANTS TO CHANGE THE FORM OF OPERATING THE BANKING SYSTEM, THEN CERTAINLY THAT IS WITHIN THE POWER OF PARLIAMENT."

Social Crediters do not know why Liberal and Conservative governments of the past have persistently refused to amend The Bank Act to provide that Parliament should issue at least part of the supply of money required by the country. In the next series of articles we propose to discuss, first, WHY Parliament should take this course of action; secondly, HOW this can be accomplished; and thirdly, WHAT benefits can accrue to the economy of the country.

PART II

Social Credit Monetary Proposals

Sovereignty of Parliament Over Money and Credit

To function properly modern society requires a recognized medium of exchange — a supply of money. The late Pope Pius XI has called the supply of money "the life blood to the economic body". Without a supply of money the economy of the country would soon be at a standstill. It is ridiculous to suggest that we should revert to the old system of barter — exchanging hides for shoes and wheat for clothing. Yet, without an adequate supply of a recognized medium of exchange — money — to carry on business transactions, what other alternative would there be but a return to barter?

If the country requires an adequate supply of money, then whose responsibility is it to see to it that our supply of money is adequate for our needs? The B. N. A. Act places this responsibility clearly on the national government. In the past the government has evaded its responsibility by giving to private institutions the sole and exclusive right to create and issue money and credit, the very "life blood to the economic body". Why?

The government alone issues the postage stamps used throughout the country and administers the Post Office Department in the public interest. Surely no one would suggest that the government should grant to private institutions the sole and exclusive right to issue postage stamps and administer the postal services of the country.

Yet the money supply of the nation is of far greater importance to the economic welfare of the nation than the Post Office Department. Why, then, should a sovereign nation that places so much importance on the administration of the postal services of the country not recognize that the money requirements of the country are at least as important as the supply of postage stamps, and therefore retain under its own jurisdiction the creation, issue and circulation of at least the basic PART of the money requirements of the country, instead of granting to private institutions the exclusive right and privilege of creating and issuing — for their private profit and gain — the ENTIRE supply of money required by the country? The only answer ever given by the opponents to Social Credit has been ridicule!

It is not suggested that chartered banks should be nationalized, or that the power of creating and issuing ALL money and credit be taken over by the State. There are two main functions of money and credit, to finance production and to finance consumption. In the field of financing production — the field of merchant banking—the Canadian banking system has been functioning extremely well. It is essential to the Canadian economy because of its ability to provide the necessary funds for investment in capital assets, the production of consumer goods, and the payment of services in connection therewith. It is because of the excellent job it is performing in this field of merchant banking that Social Crediters are opposed to the nationalization of the chartered banks, and believe the chartered banks should continue to create and issue credit —— IN THIS FIELD OF ACTIVITY.

There is another field of monetary act-

ivity in which the chartered banks cannot possibly function, i.e. financing consumption. Banks are private institutions whose main business is the manufacturing or creation of money for profit. Their chief source of revenue is the lending, at interest, of the money they create and issue.

Under the present banking system all money is put into circulation by the banks as interest bearing loans to finance production. The banks DO NOT, CANNOT and CANNOT BE EXPECTED to finance consumption simply because the consumer — by his very nature, consumes rather than produces goods. How could a bank, operating for profit, justify a loan to an old age pensioner or a disabled pensioner? It is not the function of the bank to provide the necessary money required by the country to finance the consumption of goods, the production of which has been financed by the banking institutions. This is the sole responsibility of the government, and this is the field of activity in which the government should make available throughout the country the amount of money required to provide for the distribution of the goods we are able to produce — and have produced.

Thus we have two clear and distinct requirements for money. The money required for the production of goods should continue to come from the banks. The shortage of purchasing power required for the distribution and consumption of goods should be made up by the government. There need be no conflict between the two. Only in the discharge of its responsibility in this respect can the government assure the full utilization of the manpower and natural resources of the country and the highest possible standard of living for the Canadian people.

Advances by the Bank of Canada to Canadian Government

If it is the responsibility of the government to assure an adequate supply of money throughout the country then HOW can the government provide for the additional supply of money required over and above the amount issued by the banks to finance production?

In the first place we are fortunate in having in Canada a central bank, entirely government owned, whose object and responsibility is "to regulate credit and currency in the best interests of the economic life of the country". This responsibility is only discharged IN PART today by the Bank of Canada establishing the amount of cash reserves the chartered banks must hold in relation to their credit deposits or the loans they make. The fact remains, however, that all the money that the Bank of Canada allows the chartered banks to issue is issued as a debt in the form of interest bearing loans to finance production.

The additional amount of money required by the nation over and above the amount issued by the banks should be made available to the Canadian government by the Bank of Canada by the simple process of a credit entry in the books of the Bank of Canada in favour of the Canadian government. This credit advance to the Canadian government need not bear interest. Any profit made by the Bank of Canada by charging interest would only be transferred as profits to the Receiver General of Canada in the long run. Elimination of interest charges would also eliminate the necessity of imposing taxes and the administration charges involved in the collection of the unecessary taxes.

This procedure of a credit advance or a loan, by the Bank of Canada, to the Canadian government was carried out at the outbreak of World War II. The advance was subsequently repaid to the Bank of Canada. If the Bank of Canada can be used in wartime to help finance the war effort, why not in peace time, to finance the economic development of Canada?

The credit advances by the Bank of Canada to the Canadian government will be paid out by the Canadian government in the form of cheques and deposited by the recipients with the chartered banks in exactly the same manner as is being done today. Each cheque issued by the government is debited to the government's account and credited to the individual's account when deposited with a chartered bank, and becomes a claim for legal tender in the same manner as bank credit issued today by the chartered banks in the form of loans constitutes a claim for legal tender Bank of Canada notes.

How much money should the Bank of Canada advance to the Canadian government without flooding the country with a surplus of unnecessary money? Again the problem is relatively simple. Both the Bank of Canada and the Canadian government have statistical departments that can provide information on just about every aspect of Canadian business activity. This information is used today by the Bank of Canada to determine the amount of money the banks should be allowed to issue to finance production. This same information can enable the government to determine the status of the purchasing power of the Canadian people and the amount of money required to be circulated — over and above the amount issued by the chartered banks — to provide for the consumption of the goods required and desired by the Canadian people and already produced, or that Canadian industry is able to produce. In other words, all that is required is a "MARKET SURVEY". Market surveys are being carried on continuously by private industry to determine the amount and type of goods people wish. Production goals are set as the result of these market surveys. With far more information at its disposal concerning the material and manpower resources of the nation, the government is in a far better position than private industry to determine the total production potential of the national, as well as the total requirements — both as to needs and wishes — of the Canadian people.

Such a survey was carried out on a national scale in the United States by a committee of 60 technicians headed by Harold Loeb, Director of National Survey Potential Product. Their findings were published in a report entitled "The Chart of Plenty". There is no problem involved in such a survey.

Does this mean more bureaucratic dictatorship? On the contrary, it means less. The sole responsibility of the government in a national survey is to ascertain the amount of purchasing power required by the nation over and above the amount issued by the chartered banks and to put this amount into circulation, leaving it to the individual to spend this purchasing power on the particular type of goods that he, himself, wishes. Thus is preserved and confirmed one of the basic principles of Social Credit, the right of the individual in modern society to make moral choices at will with the least amount of restriction.

Printing Press Money

Do the Social Credit monetary proposals mean that the country will be flooded with government bank notes or bank credit money? No! These questions usually form the basis of charges levied against the monetary proposals of Social Credit more for the purpose of discrediting these proposals rather than face an analysis of banking facts and practices. What are these facts?

According to the 1961 Canada Year Book there was in circulation in Canada at the end of 1960 a total of slightly over 2 billion dollars in bank notes, $1,732,-000,000.00 of which were in the hands of the public (P. 1113). At the same time the total bank deposits, or bank credit money, amounted to 12 billion 37 million dollars (P. 1115). Every dollar of bank credit issued by the banks is redeemable in legal tender Bank of Canada notes. Obviously if all the people of Canada were to go to the chartered banks at the same time and demand payment of their bank deposits in legal tender Bank of Canada notes, the banks would have to close their doors and keep them closed, until such time as they were able to reduce their bank deposits by calling in their loans, or obtain sufficient bank notes from the Bank of Canada to pay off all their depositors in legal tender. We have already seen that since 1954 the banks only require to maintain cash reserves — currency in the till or deposits with the Bank of Canada — of approximately 8% of their total bank credit deposits. This has been found sufficient to maintain their operations. Similarly, the only amount of bank notes that the Bank of Canada may be required to issue to service the credit advances to the

Canadian government will be 8% of the total amount advanced. Once these government cheques are deposited with the chartered banks, they immediately constitute a claim by the chartered banks against the Bank of Canada, which could be used by the banks as cash reserves to expand credit still further. If the banks were to do so there would be a grave danger of the country being flooded with an unlimited supply of money.

Social Crediters are fully aware of this danger and have already advocated measures to cope with it. The object of the Bank of Canada, says the preamble to the Act, is "to regulate credit and currency in the best interests of the economic life of the country." In determining the amount of money, both bank credit money and currency, that is required in the best interests of the country, the Bank of Canada will have to take into consideration the amount of credit advances made by the Bank of Canada to the Canadian government, and will have to fix the amount of cash reserves to be held by the chartered banks accordingly. As the result of the 1954 amendments to the Bank Act, the Bank of Canada can require the banks to increase or decrease their cash reserves between 8% and 12% of their total deposit liabilities. The Bank Act, and the Bank of Canada Act, should both be amended to prohibit the chartered banks using the credit advances by the Bank of Canada to the Canadian government as cash reserves to expand credit. This same objective can be achieved also by requiring the chartered banks to increase progressively their cash reserves, up to 100% of their deposits if necessary. At the same time the Bank of Canada should be authorized to advance to the chartered banks whatever cash reserves they may require to continue to

expand bank credit by making loans to whatever extent is necessary to ensure the progressive development of the national economy.

The object of these proposals is twofold:

First, and foremost, ensure that business and industry will continue to receive from the chartered banks all the funds required to maintain full production of the Canadian economy. Only through the full progressive utilization of our resources — both material and manpower — will we be able to provide continuous prosperity for the nation and the highest possible standard of living for our people.

Secondly, ensure that the additional amount of purchasing power required to distribute the goods we are able to produce will be made available by the Bank of Canada to the Canadian government. Only in this manner will industry be able to dispose of the goods it produces — without the necessity of nonsensical and sinful deliberate destruction—and maintain its productive machinery in high gear.

These safeguards will prevent the chartered banks issuing an unlimited supply of money. At the same time the money circulated by the Government would provide the country with a supply of money not issued as a debt by the chartered banks, but which would still be available by business and industry to repay part of their loans to the banks and maintain their business activities.

The crux of the proposed amendments is simply to enable Parliament to assure an adequate supply of money to meet the needs of the nation by regulating the issue of credit and currency in the best interests of the economic life of the nation.

Repayment of Bank of Canada Loans

Will these credit advances by the Bank of Canada to the Canadian Government ever be repaid ? If so — how?

The answer to the first question is "Yes", as and when required. This answer, combined with the second question, obviously requires an explanation.

In his book "Fiscal Policy and Business Cycles" Alvin H. Hansen, Professor of Economics at Harvard University, states at page 173 —

"To make the system of free enterprise workable, it is absolutely necessary to ensure a rising national income. Should the income remain stationary, rising per worker productivity would imply an ever-growing volume of unemployment. A static national income, with or without a rising public debt, would wreck the economic order."

Canada is in an expanding economy and consequently requires an expanding supply of money. We only have to glance through the various issues of the Canada Year Book to ascertain the extent to which the money supply of the country has been constantly on the increase since 1867 — in line with our expanding economy. Let us look at a few figures in recent years.

Year	Cash Reserves	Bank Deposits
1929	212,000,000	2,696,747,857
1939	268,000,000	3,060,859,000
1951	792,000,000	7,973,000,000
1960	985,000,000	12,921,000,000

Thus it will be seen that since 1939 the cash reserves of the chartered banks increased by 773 million dollars while bank credit deposits increased by over 10 billion dollars.

Let us not forget either that every dollar of bank credit money issued by the chartered banks has been issued as a debt, bearing interest. If the country therefore requires an ever increasing supply of money in order to maintain an ever increasing rise in the national income, is it essential in the first place that THE ENTIRE money supply of the nation should be issued as a debt? This question has already been answered in the negative. If the money supply of the country has to be constantly increased, then what is the advantage in the government taking out of circulation money that is essential to the economy of the nation? If the banks were to cancel all their credit deposits by calling in their bank loans, it would mean the financial ruin of the country because there would be no money available for the every day to day business transactions of the nation. Nor would there be any money available to keep the wheels of industry turning. The same would apply — only to a lesser extent — if the banks were to withdraw from circulation only part of their deposits. Withdrawal by the government from the economy of the country of the credit advances obtained from the Bank of Canada would have the same disastrous effects on the economy of the country as withdrawal by the banks of part of their bank credit deposits, UNLESS! —

Yes, there is a time when it may become necessary for the government to withdraw from circulation part of the credit advances obtained from the Bank of Canada. That is when — AND ONLY WHEN — the amount of money in circulation may exceed the requirements of the country. It may well be that as the result of miscalculation the total amount of money put into circulation by BOTH the chartered banks and the government may be in excess of the country's requirements. This surplus money can be withdrawn by one of two means.

First, by the Bank of Canada directing the chartered banks to increase their cash reserves, thus requiring the banks to call in some of their loans. This method, however, should not be used if reduction in bank loans means a reduction in the productive activity of the country.

The second manner in which surplus money can be withdrawn from circulation is through taxation. In a Social Credit economy, taxation may be necessary to provide local communities, or local governing bodies, with local benefits. Taxation may also be required to control the amount of money in circulation. As and when a surplus amount of purchasing power is found to be in circulation, and it is found inadvisable to reduce this amount by requiring chartered banks to call in their loans, then the machinery of taxation should be used to withdraw from circulation any such excess in purchasing power. Thus taxation can be used, not only as an instrument of fiscal policy, but also as an instrument of monetary policy.

Government Financing

How can the government circulate credit advances obtained from the Bank of Canada? There are many ways in which this can be done and, of course, there is bound to be a difference of opinion on the order of priority. A discussion of all these various means is unnecessary. Two or three methods stand out, howeever, and should possibly be dealt with briefly.

When giving evidence before the Banking & Commerce Committee in 1939 Mr. Graham Towers, former Governor of the Bank of Canada, made the following statement: (page 29)

> "A government can find money in three ways: by taxation, or they might find it by borrowing the savings of the people, or they might find it by action which is allied with an expansive monetary policy, that is borrowing which creates additional money in the process."

The common practice today, when the government requires money to meet its expenditures over and above what it receives from taxation, is to borrow, either from the savings of the people or from the chartered banks or from New York. Borrowing from the chartered banks is exactly the type of borrowing referred to by Mr. Towers, "which creates additional money in the process".

We pointed out earlier the astronomical increase in the national debt of Canada and the total debt of various governing bodies in Canada. Let us not forget either the tremendous amount of money borrowed from outside the country to help develop the resources of Canada.

It has always been a mystery to many

people why a country like Canada, with such a tremendous supply of material and manpower resources at its disposal, had to borrow capital from outside its borders for the purpose of developing its natural resources and making them available to its own people. It has been a greater mystery still to find government and municipal bodies, in need of money to build highways, schools and other public enterprises, having to resort to sources outside the country to obtain the monies required for the development of these projects in Canada. But the greatest mystery of all is to see a sovereign government. our own Canadian government, with the sole and exclusive authority to regulate, control and issue the money supply of the country, transfer these sovereign prerogatives to private institutions who operate for private profit and then, when the Government requires money for the general welfare of the country, go to these same private banking institutions — its own creatures — and borrow the very money it gave these institutions the sole and exclusive right to create and issue. This passes all understanding! Social Crediters advocate that before borrowing from private banking institutions or from sources outside Canada, the Government should first of all use the facilities of the Bank of Canada to obtain the monies it may require from time to time over and above its revenues from taxation, to help finance the development of Canada, particularly in the field of public enterprise. Why should Canada have to borrow from the chartered banks and tax the people to pay interest on the monies borrowed from the chartered banks, when it can obtain the same funds from the Bank of Canada, an institution established by Parliament to regulate and control

the issue of money and credit in Canada?

In his report to the Twentieth Century Fund on the economic problems of the U. S., Stuart Chase, at page 105 of the volume entitled "Where is the Money Coming From" quotes the National Resources Planning Board as saying:

> "Should the day arrive when the carrying charge on the Federal debt becomes oppressive, serious thought should be given to the creation by our modern banking and treasury institutions of non-interest bearing debt."

On the same page Stuart Chase states: "If the government borrowed solely from its own central bank without interest, there need be no interest burden at all. There would be amortization of the principal and the fundamental prohibition not to pump too many new dollars into the system would still stand."

This is exactly what the Social Crediters have been advocating for many years. The history of Canada for the past one hundred years reveals we cannot borrow ourselves out of debt. Our debt must be paid. Our interest charges must be reduced. This can only be done by gradually replacing our interest bearing debt with money obtained at cost from the Bank of Canada.

It is obvious that the entire national debt of Canada cannot be paid off at once because this would be putting into circulation far more money than the economy of the country could stand. We do not advocate this course of action. We do advocate an immediate start on the orderly, gradual repayment of the public debt in order to eliminate the tremendous interest burden which is hampering the development of our economy.

Taxation and Social Credit

No government can function without taxation of some kind but taxation at the national level should be kept to a very minimum in order to avoid the disastrous effects taxation can have on the economy of the country as a whole. There are two taxes which have a particularly harmful effect on the national economy — the sales tax and the corporation tax.

The sales tax is an indirect or hidden tax. It affects everybody in the same manner, the rich and the poor alike, regardless of ability to pay. This tax now totals 11% on the manufacturer's sale price of goods produced and manufactured in Canada or on the duty — paid value of goods imported into canada.

One of the greatest objections to the indirect sales tax is that it increases the cost of living of all Canadian citizens, mainly because of its pyramiding effect. The sales tax is collected at the manufacturer's level and it pyramids as the wholesaler and the retailer add their mark-up to the manufacturer's cost which already includes the sales tax. The result is that the sales tax paid by the people is no longer only 11% of the manufacturer's cost, but increases drastically at the retail level, depending, of course, on the mark-up of both the wholesaler and the retailer.

In his study called "Taxing to Prevent Inflation", published in 1943, Dr. Carl Schoup, of Columbia University, made the following statement:

> "Both (manufacturer and wholesalers) taxes may result in some pyramiding; that is the retailer, and, under the manufacturers' tax, the wholesaler also, may apply the customary percentage mark-ups to a cost price that includes the sales tax, thus obtaining a profit on the tax."

The extent to which this pyramiding has been carried on in Canada can be gathered by reading the report prepared by H. R. Archibald Harris, C.P.A. on the results of his investigation into the Canada Sales Tax for the Illinois & Indiana Bankers Association. At page 34 of the report entitled "The Sales Tax in Canada", published in 1923 we find the following statement:

> "The so-called painlessness of the Canadian tax is costing the taxpayers about 40% more in taxes than would be necessary if the tax were simply added on to the price which the consumer finally pays, instead of being put on the sales prices of the manufacturer."

It must be remembered that this study was made in 1923 when the sales tax was only 6% and its effect on the cost of living was far less in 1923 than now.

The corporation tax has just as great a neffect as the sales tax on the Canadian econcmy and the standard of living of the Canadian people. Few people realize that every cent paid by corporations in taxes comes out of the pocket of the consumers. It is just as painless to the consumer as the sales tax because the consumer, in both cases, fails to realize he is paying the tax through increased prices.

Social Crediters believe that both these taxes should be reviewed immediately with the ultimate objective of using these taxes only as a means to withdraw from circulation any excess of purchasing power, rather than as a means to obtain revenue for the governmnet.

Does reduction of the sales tax, or the corporation tax, mean a reduction in the services provided to the Canadian people? Not at all, because the revenues lost through dropping these taxes should be replaced by credit advances to the Canadian government by the Bank of Canada.

Let us not forget that money collected by the government as taxes and paid out for services does not add one cent to the total money supply of the nation. This merely represents a redistribution of the existing supply of money — taking from Peter to pay Paul. If added money is required to enable us to distribute the goods we have produced this must come not from a redistribution of tax money but rather as new money.

Keeping in mind always that the amount of money the government can issue must be related directly to the amount of purchasing-power required to distribute the goods the economy of the country is able to produce. Social Crediters recommend that any increase in the money supply of the country should be circulated by the government through the following means:

(a) in payment of capital expenditures, other than in the industrial field,
(b) as subsidies for the purpose of reducing consumer prices and enabling our Canadian goods to compete in world markets,
(c) increased Social Service benefits, e.g. old age pensions, family allowances, etc.

In addition, Social Crediters advocate that the machinery of the Bank of Canada should be used to assist in the financial operations of provincial governments, municipal and school organizations rather than force these public bodies to compete with industry in the money markets, either in Canada or New York, for the monies required for the development of public projects.

Foreign Trade

The question is often asked: What effect will the implementation of the Social Credit monetary proposals have on foreign trade? The answer is not too difficult as long as one understands what is meant by foreign trade.

When a country exports more than it imports it is said to have a favourable balance of trade. All nations in the world today are seeking to establish a favorable balance of trade and that is where chaos starts. How can countries pay for the goods they import? There are only two ways in which any country can pay for imported goods. The first is payment in goods, or the exchange of commodities between countries. The second is payment in money. In foreign transactions there are only two kinds of money recognized or accepted for the payment of goods, gold or the legal tender currency of the exporting country.

There are only four ways in which a country can obtain the necessary money to pay for the goods it buys:

1. By exporting goods itself which will give it a claim for legal tender money, or gold, on the country to which it exports its goods. The money thus obtained can be used for payment of imports from the same country. This, in effect is barter, with money used by both countries as the means of settlement.
2. Through invisible services, such as expenditures of money by tourists. If Canadians spend less money outside of Canada than American tourists spend in Canada we benefit by a net increase in American dollars.

3. As a loan, either from the country supplying the goods, or from some other country. The proceeds of the loan can be used to pay for imports. The loan, of course, becomes a debt, usually payable to the exporting country.
4. By receiving an outright gift from the country supplying the goods. In the two World Wars, Canada made an outright gift of money to Britain. In the last war it was a billion dollars, but the billion dollars had to be spent in the purchase of Canadian goods.

In addition to these gifts of money, both Canada and the United States, since the last World War, have made tremendous gifts of goods to nations who were in need and did not have the necessary money to pay for these goods.

Today all the countries in the world are endeavouring to increase their exports and restrict their imports. They place restrictions on imported goods by imposing high tariffs which make it difficult and, in many cases, impossible, to sell imported goods in competition with locally produced goods. These nations fail to realize that they cannot sell their goods in foreign markets unless they are prepared to accept foreign goods in payment.

Another impediment to the sale of our Canadian goods in foreign markets is in our high production costs. We cannot expect to be competitive in the sale of our goods in foreign countries where the wage scale may be far below ours, or where taxation increases the cost of our goods beyond the competitive point. It is a well known and recognized fact that a large home market is the best base on which to build a successful competitive market. We have already discussed the effect of excessive taxation on our Canadian standard of living. Lower taxes reduce production costs to a point where more of our goods can be sold at competitive prices in foreign markets.

Finally, another method of assisting is in the payment of subsidies to producers.

Subsidies are not new. We have paid many subsidies in the past in this country. We have had coal subsidies, milk subsidies, freight subsidies, shipbuilding subsidies, and many other subsidies of one kind or another. The difference, of course, is that the subsidies in the past have always been paid out of taxation, whereas the subsidies advocated by Social Crediters would be paid by the Canadian government out of credit advances from the Bank of Canada. Subsidies paid as the result of taxation can only result in an increased overall burden on the Canadian economy, whereas subsidies paid as a result of credit advances from the Bank of Canada will result in a decrease in the cost of production, thus enabling our goods to compete in foreign markets.

In the final analysis therefore, imports must be paid for by exports. Our success in increasing our exports cannot be achieved by endeavouring to lower the standard of wages in Canada to the level of wages paid in some foreign countries. Our exports can only be increased by the proper incentive to stimulate our economic growth. This requires a reduction in taxation, instead of increased taxation. The proper use of the facilities of the Bank of Canada, as advocated by the Social Crediters, appears to be the only means through which the economy can receive the stimulation required to promote and develop its foreign trade.

Inflation

The final objection raised against the Social Credit monetary proposals is that the implementation of these proposals will result in such an increase in the money supply of the nation that it is bound to cause inflation.

What is inflation? To create inflation there must be a combination of two factors. First, an increase in the volume of purchasing power in the country, and, secondly, an increase in the price of goods available for sale. Inflation is a condition created by the volume of purchasing power being in excess of the total normal price of goods available for sale. Let us not confuse price increases due to increased wages, increased cost of debt servicing charges, and other similar factors, with an increase in the price of goods due to an excess of purchasing power. Social Crediters contend that the implementation of their monetary proposals, far from causing inflation, will LOWER the cost of living as the result of the ultimate elimination of interest on the public debt followed by reduced taxation and reduced cost of production.

Every time Canada has borrowed money from outside the country the supply of money was increased in the country, the volume of purchasing power in the country was increased. Has anyone cried inflation? If, instead of borrowing this money from outside the country, the same amount had been made available by the Bank of Canada, would this have constituted any greater inflation than borrowing from New York?

Never have Social Crediters advocated the issue of an unlimited supply of money. On the contrary all Social Crediters have ever advocated is that any increase in the money supply of the nation should be restricted to the amount required to balance buying power with the retail prices of all goods to enable us to consume the goods we are able to produce.

CONCLUSION

During the Second World War the House of Commons set up a Post-War Reconstruction Committee to investigate ways and means of avoiding further economic depressions in the country after the war. In the Interim Report presented to Parliament on June the 23rd, 1943, the following paragraph stands out.

> "17. When war is over, some other definite aim must take its place as a motivating cause of national economic activity. Thoughts of those who return to us from the field of battle and of the dependents of those who die, and of what they fought and died for, will supply the aim. Your committee is certain that the means of so doing will be found in the conservation and proper utilization of our natural resources, and in the decision that markets will be sought for our production by governmental intervention, where necessary from time to time. In this respect we welcome the conclusions arising from the United National Food Conference that never again will food be destroyed simply because people have not enough money to buy it."

Why have we failed, in spite of this high resolve, to avoid further depressions and unemployment once the war was over? Simply because we have tried once more to muddle through with monetary policies based on a bank debt creating system, the same banking system under which we have had nothing but recurrent cycles of booms and depressions since Confederation.

The main objective of our Canadian economy should be to raise the standard of living of Canadians to the highest point possible through the full utilization of the manpower and natural resources of the country. This objective cannot be achieved under a banking system where all money is issued as an interest bearing debt, and where you are called upon to pay back more to the banking system than the banking system puts into circulation. This objective cannot be achieved under a banking system that has as its main purpose the making of money — i.e. the making of profits — for the benefit of its shareholders.

This objective can only be achieved by the establishment of a banking system and the inauguration of banking policies that will provide a constant supply of money or purchasing power sufficient not only to produce all the goods that our vast resources of manpower and material wealth can make physically possible; but also sufficient to make possible the distribution of our entire national production or its equivalent.

Only the implementation of these proposals can result in the realization of the hopes expressed by the United Nations Food Conference and endorsed by the Post-War Reconstruction Committee:

> "Never again will food be destroyed simply because people have not enough money to buy it."