The GIST of SOCIAL CREDIT

by
R. A. CANTELON

Fort Sask Social Credit Group.

The G I S T of

S O C I A L   C R E D I T

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Social Credit in brief.

Including a comparison of the business cycles the same land to which is applied abundance of production, there are literally millions of unemployed who are existing on the stinted charity of harassed and bungling governments; who are living from day to day in hope of a chance to earn an honest living, and are being crushed with the shame and strain of it all. And what about the millions who are scraping along on a pittance barely earning enough to meet the bills of a comfortless existence? In short, how many of the entire population can afford such luxuries as proper medical and dental care, or a few holidays from home, or any of the little things which add so much to life? I submit that the fraction of our population who can afford such luxuries are singularly blessed.

Everyone of us has first hand knowledge, if not actual experience, with poverty.

POVERTY AMID PLENTY

And the above is a brief synopsis of the consumption situation. These two pictures, one of abundant production, and the other of a struggle for the right to consume even enough for a miserable existence; one of plenty, and the other of poverty, are to be found side by side in the same little town.

While plenty stands helplessly by, poverty stalks in her shadow, robbing our babies of health, pinching our children in their play, tempting our youth with idleness and want, into mischief, and demoralizing all of us with her confusion. No one attempts to deny the paradox. Its ignominy is ignored. Its necessity is barely challenged.

THE CAUSE

Why does such a condition exist? The reason is childishly simple. The masses of common people lack purchasing power, and they have no means of getting it. The difficulty lies in the distribution of goods and/or services. Since there is no problem in production, and no scarcity of people who need production, then distribution is the only place left, and our problem lies therein. Let us consider it for a moment.

THE CONNECTING LINK

Distribution is divided into two parts: the mechanical side, such as our wholesale and retail distributing agents, as well as transport facilities, and the financial side which distributes purchasing power to society. The former is highly efficient, but the latter, the financial system, is hopelessly and tragically inefficient.

Our difficulty, as I said, is a matter of purchasing power. There is'nt enough of it, especially in the hands of the common people. Although purchasing power is relative to something else, without going too deeply into the matter we shall define it as meaning exactly what it says: - the power or ability to purchase production. A single dollar has more purchasing power at one time than at another, but applying the term to the majority of common people, we may say they have an insufficient amount of it.

PROSPERITY AND DEPRESSION

This is undeniable. Mark you, I said the majority lack purchasing power. If all the wealthy people began to spend their accumulated credit, it would help only temporarily. This happens during a period of expansion. The result is that surplus goods are used up, production is stimulated, labor goes back to work, credit is released, and purchasing power is increased, and circulates faster. Then of course, prices rise and our period of expansion and prosperity is now a period of inflation.

Gradually, because of the inherent flaws of the present financial system (among other causes) surplus goods again pile up. Production must slow down. Men are thrown out of employment, and purchasing power, already insufficiently available, falls still lower. Now the financier does his part. He recalls tottering loans, and restricts credit. Currency disappears like magic. Production, in its struggle to dispose of surpluses, cuts prices, many concerns going bankrupt, still others madly creating an artificial scarcity to force those with money to spend it. (Governments mortgage the generations of eternity to subsidize this outrageous blunder.) And so, a period of deflation, which we commonly call depression, has us in its grasp.

In this way we can see how depressions follow prosperity as inevitably as night follows day. "The swing of the pendulum", opines a glibster, and the world takes up the cry. We say the sequence is inevitable, but it is inevitable only under the present financial system.

In regard to the present depression, one of the reasons why it is so prolonged, is because the necessary stimulating wave of expansion has been delayed. We are so industrialized now, that there was little hope of improvement from expansion along ordinary lines. Business conditions are now on the upgrade however, because of the expansion is now taking place in the field of armaments. The same effect would have followed the same expenditure in the field of science, or home improvement for example. - And with possibly more comfortable results.

In a consideration of purchasing power, we must begin with the irrefutably simple fact that the public who would use it for direct consumption do not have it. In other words there is at least a maldistribution, if not a positive insufficiency of purchasing power. Which it is, - need not be settled here.

THREE REASONS FOR SCARCITY OF MONEY

The reasons for the dilemna are strangely inter-related. First of all, we must realize that the unemployed have no access to our central pool of wealth which results from the co-operative efforts of society. We are all trying to find a market for our goods and services. Those of us who cannot (the unemployables) are wholly dependent upon charity.

We have the unemployed. Few people attempt to deny the fact that <u>unemployment is a permanent fixture</u>. (I have used the word in its present accepted sense. Unemployment need not be a curse. In its proper sense unemployment will mean <u>leisure</u> to spend in doing what we enjoy most. This is the Social Credit conception.) Man's ingenuity has developed present day specialization of machines. The machine has displaced hand labor. And rightly so. But under the present system, no provision has been made for the human element no longer necessary. <u>Social Credit makes this provision</u>.

Another reason why large sections of the public lack purchasing power is due to the fact that our productive processes do not release sufficient credit to buy back the total output of production, and at the same time provide increasing sums to be collected in prices and withdrawn from circulation as reserves for any purpose. Let us put it this way: so long as one penny of costs is withdrawn from circulation by anyone and for any purpose, then the amount which remains is insufficient to pay for the goods produced in the same cycle.

"But," one may say, "these profits or reserves are not dormant. They are re-invested in productive enterprise." This may be true. But obviously they are not used to purchase the goods of the same cycle of production from which they were withdrawn. They are re-invested in relation to a later cycle and for the purpose of exacting a still further profit. And so we find that savings or profits have a tendency to become centralized."To him that hath shall be given", expresses this tendency very nicely.

Perhaps the greatest cause of the inefficiency of the present financial system lies in the fact that it is a debt creating system. A producer may need ready credit to enable him to produce new wealth, so he asks the banker to advance him a loan. This loan becomes a credit to the bank and at the same time a debt to the producer. Later, when the producer has created his new wealth (goods) and has repaid his loan, his debt is cancelled but the bank has been enriched by his repayment, (principle and interest.)

BOOK CREDIT FOR REAL WEALTH

In short, the bank, at the present time, possesses the power to monetize the value of security offered by an individual or a nation, and to issue this amount of credit as a debt to the individual or nation to which it belongs. A little further thought will lead to the conclusion that the banks get real credit representing real wealth in return for their book credit. This so called sound practice gives the financier a tremendous grip on the purchasing power of a nation, and explains in part the scarcity of effective demand. And of course, interest, the bait and the spur, aggravates the entire situation.

A SUMMARY OF THE FLAWS

To review the three major flaws in the present financial system:

(1) The machine has displaced hand labor, throwing millions out of employment, without making provision for their living. These unemployables are dependent upon government relief which must be borrowed at high interest.

(2) The business cycle does not distribute enough purchasing power so that the public may consume the entire output of production and at the same time allow credit to be withdrawn from circulation as savings. (Mark you, re-investment of these profits for the purpose of gaining further profits through interest does not disallow this claim.

(3) The fact that fresh money or new credit is controlled by the banks and issued largely as a debt to the borrower is fundamentally lamentable.

THE REMEDY

So far, I have indulged in destructive criticism usually considered an easy task, without any constructive suggestion for a remedy. I now submit

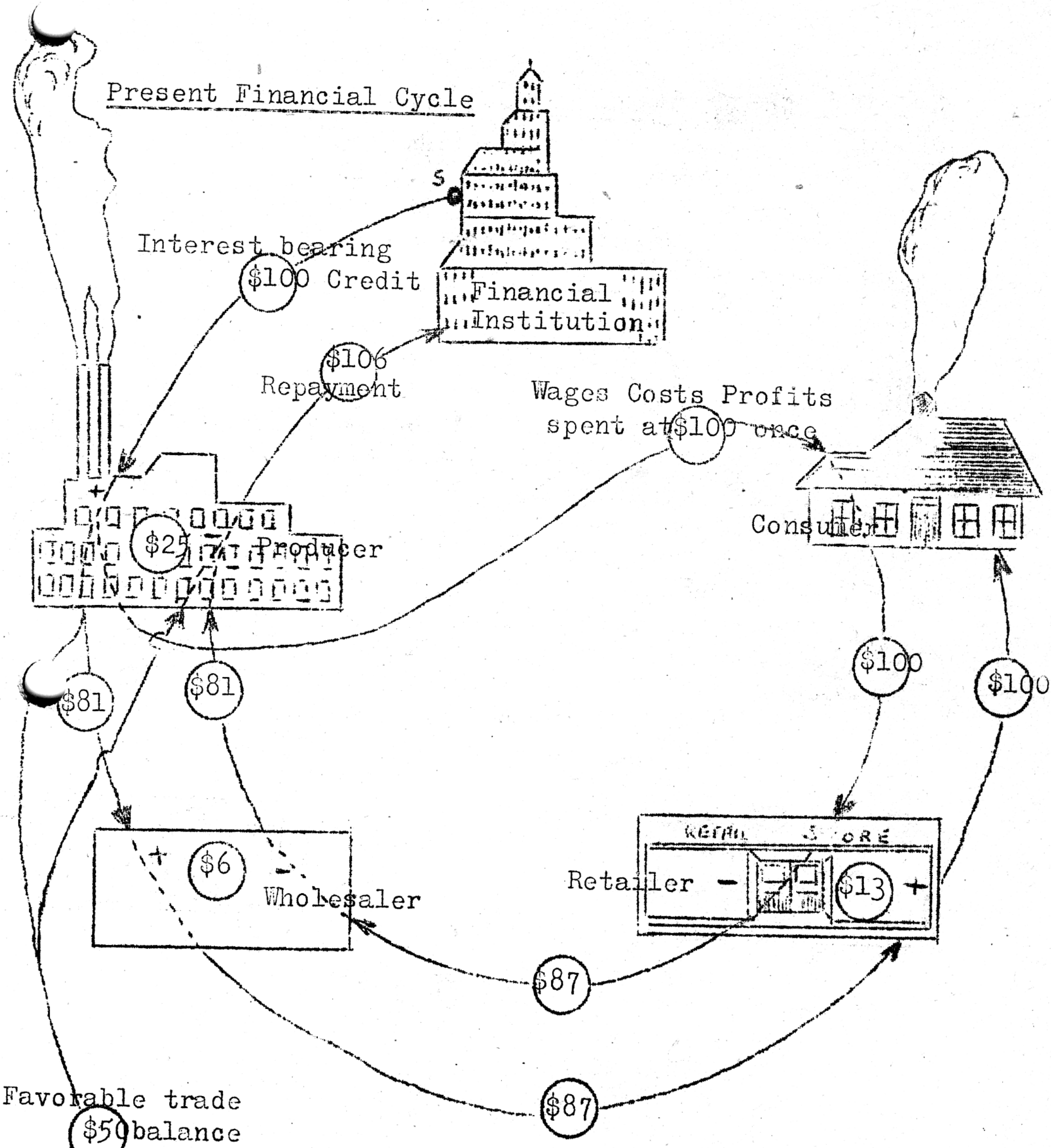

Figure 1.

Outer Circle - Movement of goods
Inner Circle - Purchasing Power

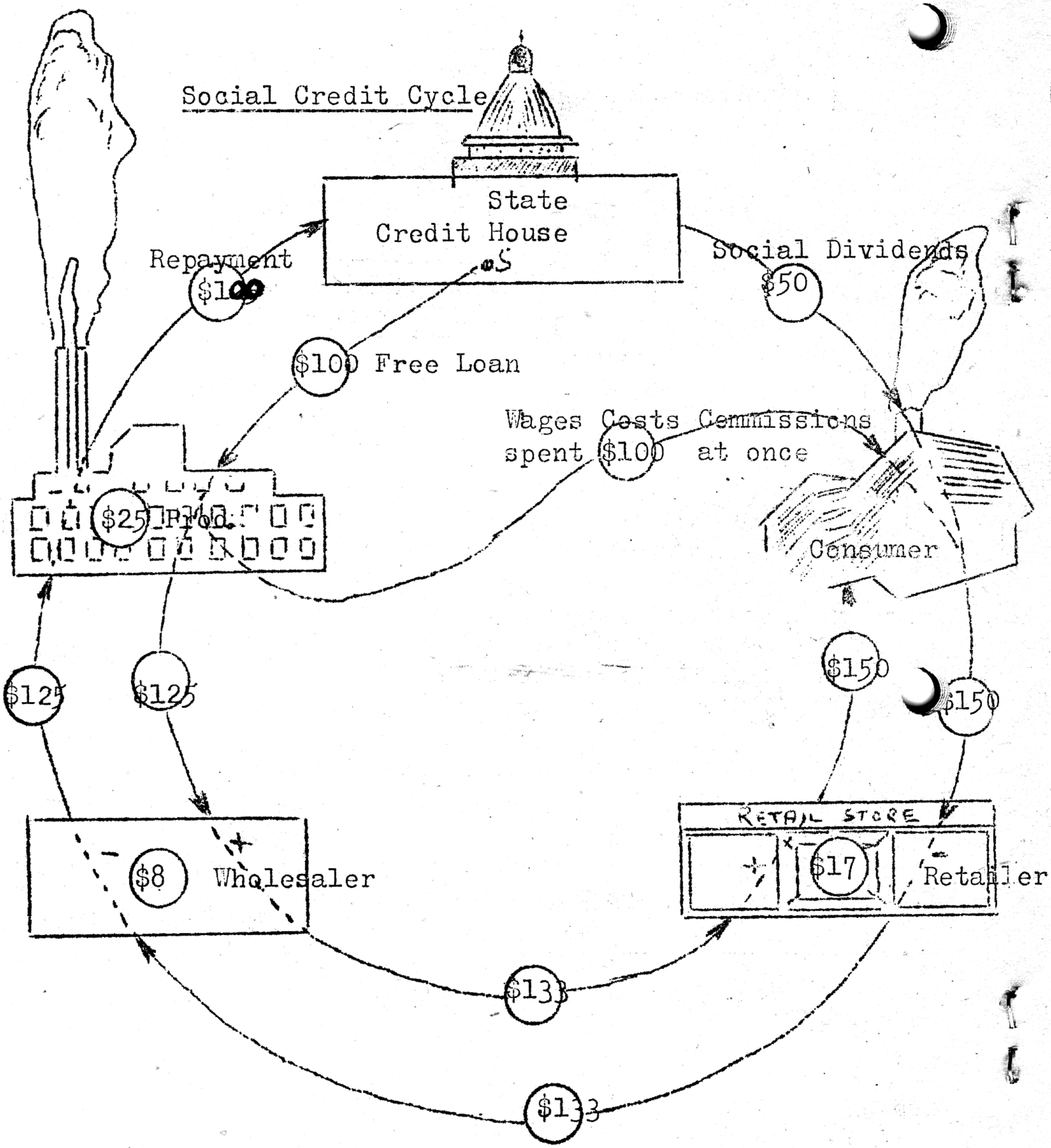

Figure 2

Inner Circle - Movement of Goods
Outer Circle - Purchasing Power

that the Social Credit System, founded by Major C. H. Douglas, is a certain remedy for all these flaws. In passing, may I repeat a statement I made in a former article, - that regardless of any possible criticism, Douglas will one day be credited with the discovery of one of the greatest truths of all time: the Douglas System of Social Credit.

In the present writing I am not attempting more than a brief outline of Social Credit. I shall merely say that the goal of the system is to banish poverty from the midst of plenty; its aim is to provide every citizen, - man, woman, and child, with sufficient purchasing power so that they may at least enjoy the necessities of living. It is founded on the principles of Christianity, and its realization will mean an era of leisure, with security, peace and plenty for humanity.

The means by which the Social Credit system proposes to bring this about is by the monetization of wealth of our society by the state rather than by our banking institutions. Nor will this proposal ruin the latter. It will supplement rather than destroy, those services rendered by them.

This is the root of the matter.

THE BASIC PRINCIPLES OF SOCIAL CREDIT

There are only two basic principles of Social Credit:

1. The creation and issuance of purchasing power. The entire output of production may thus be consumed, and at the same time, so that savings may be proceeded with.
2. The question of prices. Where distribution of extra purchasing power would be accomplished prices might be stealthily raised, and the evils

of true inflation would run rampant without some provision regarding prices.

A CHECK ON TRUE INFLATION

These inflation evils are eliminated by price control. Price control also gives a solid foundation to social dividends or credit issued to increase the purchasing power. It is not price fixing. Costs plus a reasonable rate of margin or gross profit must be allowed. In this way producers and distributors are guaranteed against loss (if they use reasonable business efficiency) and the consumers are guaranteed against exploitation.

A noteworthy feature of the system lies in the fact there is no upheaval necessary for its installation. There is no compulsion, regimentation nor loss, no confiscation nor repudiation to Social Credit. It is a sound scientific remedy for the above noted economic flaws and may be implemented quietly, efficiently and speedily. Instead of surplus goods piling up for want of consumer credit and restriction or destruction of goods, or a mad scramble for foreign markets the only hope for improvement, Social Credit will result in a steadily expanding home market, and will continue so until the consumer demand is satisfied, or until the full productive capacity of the unit is reached.

THE SOCIAL CREDIT REMEDY

The Social Credit System deals with each of the above noted flaws as follows:

1. Citizens who have been displaced by the machine are given as their inherent right, sufficient credit to enable them to buy the necessities of food,clothing,and shelter.There is a possibility

that the system will do more as it develops.

2. By distributing credit and thus increasing purchasing power, and at the same time controlling prices, members of society are able to withdraw reasonable amounts of the credit they earn, to save for future expenditure, and there will still be sufficient purchasing power available to buy back all the goods produced.

3. Social Credit is a credit system. The state monetizes the value of new production and issues this free new credit to consumers. It will of course gravitate to those who earn it and may be used at once (kept in circulation) or it may be deposited in the State Credit House account for future expenditure.

THE CYCLES

In connection with the three fundamental flaws of the present financial system, and the remedy for each as proposed by Social Credit, may I suggest that the two accompanying diagrams be studied carefully.

Both diagrams represent in the simplest form how goods are produced, distributed, and paid for. Figure 1 represents the cycle of business under the present financial system. Fig. 2 represents the business cycle under the Social Credit system.

In both cycles the term "production" includes primary producers as well as processors and manufacturers of all kinds. From this stage, the goods are distributed through the wholesale and the retail agencies to consumers or purchasers. To complete the cycle, we trace the available purchasing power (ability to pay) from consumption back to production.

In dealing with Figure 1 showing the present financial system, the first flaw is so obvious as to need no clarification. It is self evident that to receive an income, one must have some connection with production or distribution of goods.

In connection with the second fundamental flaw under the present system, start with the dot in the Financial Institution sketched at the top of the figure, and trace the arrows as follows:-

Production obtains an interest bearing loan of $100. This is the monetization of his security made by writing figures in a book. The producer plans on creating goods to sell for $100 (principle, plus $6 interest plus $25) This is an illustrative figure which he believes henecessary to withdraw from the cycle for a reserve of some kind a saving if you wish. This sum may be spent on expansion, a retirement fund, or some other future expenditure. Whatever this portion of the price of goods is reserved for, it is not spent at once.

We shall assume that the $100 loan becomes available purchasing power at once through the agency of wages, cost of materials, etc. This of course goes to consumption. The consumer spends this sum on goods. He is in receipt of $100, he spends it with the retailer and gets $100 worth of goods.

Now the retailer has the hundred dollars but he must withdraw a certain amount (say $13) to allow for future expansion, or retirement, or any other future need. This leaves $87 to pay the wholesaler. And this is the value of goods as they leave the wholesaler.

The wholesaler receives $87. His deduction for reasons suggested above is $6. There are now $81 to pay for goods produced and distributed on the home market. (Not that this was all the goods that were necessary but it was all the home market could pay for.)

So $81 goes to production. But to come out comfortably Production must be in receipt of $131 ($100 - $6 - $25.) Now begins the frenzied scramble to dispose of the surplus goods (worth $50) on the foreign markets. This may be destroyed, or prices may be lowered until the producer is forced into bankruptcy, or the surplus may be stored and production restricted until it is consumed.

It is not my claim that the above presentation is perfect. At times the cycle seems to be reversed. The exportation of goods is shown from Production only. The purchasing power emanating from wholesale and retail agencies has been ignored for the s' sake of clarity. But making due allowance for these discrepancies, the second flaw remains proven beyond a doubt.

In connection with the third reason for the inefficiency of the present financial system, I believe it is plain that the Financial Institution monetizes the security of the borrowing producer. Therefore it will be obvious that under these circumstances the value of the increase in the real wealth of the country (which is new production) enters the circulating stream of purchasing power as a debt. The producer then sells his new wealth if he can, and repays his loan with currency he received in payment. In this way the bank uses the producers own credit to issue a loan (which is now the producers debt) and when the goods are sold the paper credit is repaid with currency, (or by check) which is the monetization of goods left somewhere in the hands of society.

THE ECONOMICS OF SCARCITY

This strange procedure explains in part why the National Wealth of Canada (not her natural resources) is in excess of $25,000,000,000 while there is a trifle over $2,500,000,000 on deposit in Canada's banks. (And this figure includes loans) Stranger still perhaps, is the fact that in 1933 (the latest figures available) there was roughly $186,000,000 in specie, coin, and currency held by the government, chartered banks, and the general public.

Referring again to Figure 1 the consumer is not allowed to save anything in the cycle. This of course is explained by the fact that producers wholesalers, and retailers, are all consumers, and the amounts withdrawn as savings, etc., are the savings or reserves of consumers.

In connection with the difficulties suggested in securing foreign markets, the reason lies in the fact that every country is trying to do the same thing. The $50 used in the cycle must be a favorable balance of trade. An even exchange or barter of products would'nt help at all under the present financial system.

THE PERFECT CYCLE

In dealing with the remedies as proposed by Social Credit, let us examine Figure 2, representing the perfect business cycle.

The remedy for the first flaw is self- explanatory. Bona fide citizens receive the social dividends as their share in productive wealth of their unit, whether they can find employment, or not. This much is their right.

In connection with the remedy for the second major flaw as proposed by Social Credit, start with the dot in the sketch of the State Credit House at the top of the cycle. A free "production loan" may be issued to <u>responsible</u> producers. This is a credit entry in the account book of the State and will cost nothing but clerical work and paper.

The free credit loan is assumed to become available to consumption as costs of certain materials, wages, and commissions, just as it was in Figure 1.

Let us assume that production requires $25 as the amount necessary for future expenditure. <u>This amount has a vital relation to the controlled price.</u> The goods produced must thus sell to the wholesaler distributor for $125 which is the total of costs and savings or reserves.

The wholesaler needs to add $8 to this price so as to allow for expansion or future expenditure of any kind, making the value of the goods now $133.

The retailer must pay $133 for the goods and, he in turn, adds $17 to cover his future needs. This brings the retail value of the goods to $150.

THE ESSENCE OF THE SYSTEM

But the total available purchasing power of consumption, making necessary and reasonable allowance for reserves, and ignoring that which emanates from the wholesaler and the retail agents as before, is only $100. The $50 lag or difference is made up by the issuance of social credit to the consumers. By virtue of the controlled price feature at every stage of the business cycle, $150 is a reasonable and true value of newly produced goods. It forms therefore, the basis for the $50 which has been issued as new credit. This is what is meant by <u>equating consumption with production.</u>

<u>It will be manifest that the amount of the necessary social dividends is inflexibly the equal of the total reserves deemed necessary by the</u>

various stages of the cycle. In this way it follows that the amount of social credit to be issued will be a calculable percentage of the basic value of production. And the amount issued to each citizen will depend upon the value of production in equitable shares.

WHAT HAPPENS TO DIVIDEND CREDIT.

Dividend credit is not ordinarily recalled, although this can be easily accomplished by raising prices or by an income tax. The credit issued as dividends is free and will be left in the hands of those members of society who have earned it. If they wish to spend it, the credit enters the stream of circulating credit until someone wishes to save it for future use. Since it is based upon goods and backed by the productive capacity of the unit, it will always buy whatever is possible for the country to produce or import. This credit, standing in the names of citizens in the State Credit House, will not be a debt to the state, but will represent the wealth of the country in a sounder, more honest way than does the total deposits in the banking institutions at the present time. And so long as credit outstanding is not more than national wealth, it will do so.

And that, ladies and gentlemen, is the gist of Social Credit.

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