TWO SHILLINGS

THE . . .
PEOPLE'S
PURSE . .

by

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circa 1952 - See last page ref.

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THE PEOPLE'S PURSE

CHAPTER 1

DESTROY OR DISTRIBUTE?

(1)

Mankind is now passing through a period of transition. This period may be said to have begun a little less than 200 years ago, when Watt constructed the first commercially successful steam-engine. From that time onwards a change has been taking place in the conditions of life—a change so rapid that we are still trying to solve the economic and social problems of this industrial era along lines more fitted for the earlier age of handicraft.

What is happening at the present time is not merely a passing depression caused by six years of destruction and dislocation. Our present tribulation is only one phase of this great transitional period, and it depends upon the people of this generation—on you and me—to see that the outcome is a better world, and not an orgy of mutual destruction. We must not let our daily worries prevent us from realising what is happening around us, or the need for us to take an informed and intelligent control of our destiny.

(2)

Let us recall some of the changes which have occurred since the middle of the 18th century. Nowadays we strike matches, but then our ancestors had to use flint, steel and tinder. The mill and the power-loom have replaced the spinning wheel and the hand-loom. Our great-grandfathers wrote with quill pens, but to-day we use fountain pens, typewriters, teleprinters, comptometers. To the 19th century we owe the bicycle, the iron ship, the steam locomotive and the motor-car. During that same century the scythe gave place to the power-driven harvester and binder, and the tallow-dip to the arc-lamp, while leather fire-buckets disappeared before the modern fire-engine, and signal beacons before the telephone. To that century we owe X-rays, the camera, cigarettes, the gramophone, gas-lighting, electricity, submarines, antiseptics and anaesthetics—as well as the popular newspaper, general education and the theory of evolution. Since then the cinema, the aeroplane, wireless telegraphy, fluorescent lighting, the tractor, the radio and adult suffrage have become matters of everyday experience, and overcrowded towns and atom bombs are terrifying actualities.

During the last 200 years a startling change has occurred in the circumstances of our existence. Why, then, has our increase in knowledge and power added so little to our enjoyment of life, our well-being or our security? Why are our struggles against current difficulties so often thwarted and ineffective? Is it not because these rapid developments have created new problems (not merely economic, but also social and moral) whose nature is not yet sufficiently realised? Survival of the species calls for adaptation to surroundings, and we have not yet solved the problem of how to adapt our ideas and our institutions to the new environment which men have themselves created.

(3)

At the beginning of this great transition period there was actual and acute physical scarcity. Men had not yet found out how to harness the energy of the sun, stored in coal or oil, to drive their machines for them. The economic problem of the day was that of producing goods. However, as discovery and invention followed each other with bewildering speed, the problem changed and became instead one of finding markets for goods that could be produced in plenty.

In view of the post-war shortage of many things regarded as necessary to modern life, it may seem strange to suggest that the basic economic problem is still how to find markets and customers. Yet one cannot forget that in the years before the two World Wars our astonishing mechanical and technical ability to supply goods and services was not used to anything like its full extent. The reason was not that goods and services were not wanted (we know well that there was both a need and a desire for them), but that orders were scarce. Merchants were only too anxious to sell, but many people unfortunately lacked the money to turn their desires into orders.

Failure to solve this problem of distributing to people the goods and services they need, and which agriculture and industry were so excellently equipped to supply, led to a fall in production—for it is not good business to make or to grow what cannot be sold. There was unemployment both of men and machines. Wages fell. There was less to spend. Less was bought. Less was made. Fewer "hands" were employed. Men lost hope and skill. Machines depreciated. Fields went out of cultivation. Amidst the possibility of plenty, there was poverty and a general feeling of frustration.

(4)

The War altered all this. War is the great Customer. Orders for armaments led to activity in their manufacture, and the fresh flow of wages led to a demand for other goods. Industry revived, for there is no lack of money in war-time, and national need becomes effective demand—a demand backed by the sure promise of payment.

But War is also the great destroyer, and now, as the result of the destruction and dislocation of war, the old problem of providing food, warmth and shelter for those who need them has temporarily replaced that of distributing abundance. But this phase need only be of limited duration. Our mechanical and technical ability grows daily. And although before and during the War the fertility of the soil was sadly depleted in order to satisfy a short-term policy of maximum yield, yet there is now a growing recognition of the need to restore to the land its former fertility, a growing awareness of the ways to do so, and a growing resolve to put them into practice.

Because in the past we failed to use our resources to raise our standard of living, it became impossible to avoid using them for mutual destruction. The problems of abundance will return—and, so long as we know and apply the correct solution, the sooner the better. But even to-day governments are jockeying for places of advantage in anticipation of the next great conflict : already suspicion among the nations prevents their co-operation in rebuilding a world nearer to the heart's desire. Which then, is the best way to deal with the " problem " of plenty—to distribute that plenty, or to destroy both it and ourselves with it ?*

CHAPTER 2

BALANCE

(5)

Before the last war (when much technical ability to supply what people wanted remained unused because people were short of money) and after the war (when at first there seemed to be more money in people's pockets than they needed to buy the limited quantity of goods for sale) one feature was common to every industrial country. That feature was a *lack of balance* between the prices of goods available for sale and the money available to buy them.

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*See, however, *Appendix A*

We have already seen that this lack of balance began as a shortage of purchasing-power on the buying side of the market. We now note that this lack of balance sets up movements tending, at first, to achieve some sort of equilibrium. When for instance, there is too much money about in relation to available goods, prices tend to rise and to absorb the extra money. A period of rising prices due to such a lack of balance is known as a period of *inflation*.

People who have fixed incomes naturally view inflation with alarm, for it reduces the buying power of each unit of money (pound, dollar, etc.). People who deal in money also view inflation with disfavour, because it adds to the importance of goods in relation to money. Inflation also creates a feeling of *uncertainty*, because many people, seeing prices rising all round, hurry to buy goods in anticipation of higher prices later on. This in turn induces prices to rise still further, and the upward movement of prices seldom stops when balance has been reached, but continues until there is once again a real shortage of buying power. Then there often occurs a reaction even more disturbing.

(6)

When the lack of balance is the other way round, and the money on the buying side of the market is not sufficient to buy the goods available for sale (a far more usual condition in an industrial society), we find certain well-recognisable features.

First, there is a growing accumulation of unsold goods in the shops, a reduction in the orders flowing to the warehouses, and a still greater fall in the amount of orders flowing from the warehouses to the factories.

Next, and as a direct consequence, there is a reduction in opportunities for employment. Wages fall off. Profits decrease. The demand for goods becomes still less.

Then, those who have made loans to industry see the value of their securities diminishing, and often ask for repayment. This adds to industrial difficulties, and the repayment of bank-loans further reduces the amount of money already in circulation. General depression grows yet more acute.

Prices usually fall a little, but not sufficiently to reach a balance with the decreased amount of money available to spend. No industrialist or shopkeeper can for long sell below cost. He must recover in prices *all* he pays out : otherwise he has to go out of business.

Then, just as, when prices are rising, people hurry to buy, so, when prices are falling, people hold off as long as possible in order to buy more cheaply later on. This again accentuates the manufacturers' and the shopkeepers' difficulties.

Bankruptcies follow, and general uncertainty—possibly panic. Everywhere the standard of living falls. Unemployment increases. There arises a tremendous urge to sell abroad the goods which cannot be sold at home. Intensified competition for foreign markets is sometimes a direct and almost always an underlying cause of War.

(7)

Until comparatively recently, "recognised" economists assumed that the money in the hands of would-be buyers must be exactly sufficient to enable them to procure everything that industry was able and willing to supply. But the adequacy of total demand is no longer taken for granted : it is at last widely recognised that there is no automatic mechanism for keeping the supply of goods and the demand for goods in equilibrium.

The old idea of a self-regulating economy is no longer held, even by the most orthodox of economists, but how much misery might the world have been spared if they had abandoned this error sooner !

It is perhaps unfortunate that Economics as a Science—for so it often claims to be—is descended in direct tradition from Adam Smith. In the second half of the 18th century Adam Smith published his remarkable book, "*The Wealth of Nations,*" which had such a wide and lasting influence on men's outlook. And it was about the same time that the application of steam-power to machinery started the Industrial Revolution, and put an end to that age of manual toil and limited production on which Smith's observations and assumptions were based.

The Chapters which follow deal chiefly with the economic problems of the modern power-age. Nowadays there is no necessary relation between what an industrial nation can make and what that same nation can buy. Such a relationship must therefore be established, not by lowering production but by gearing the power to buy with the power to make and distribute what is needed. And this book shows how it can be done.

CHAPTER 3

MONEY

(8)

We cannot even begin to discuss economic questions intelligently until we know something about money—what it is, where it comes from, what it does and where it goes. On the whole, people are extraordinarily uninterested and almost completely uninformed about such matters, and this is rather surprising when one considers what a very important part money plays in the daily life of each one of us.

Three types of money are in common use to-day. A coin, a bank-note and bank-credit—*i.e.* a credit-balance at the bank—are all money. Everybody is familiar with the coin and the note. These can be handled and passed from one person to another. But bank-credit is something different. It is really an obligation on the part of the bank to pay to its customer coins and notes up to the extent of his " credit " if and when he asks for them. To make this a little clearer, let us suppose that you or I have some coins or notes which it is not convenient to carry about with us and which we do not like to leave at home in a drawer. Most probably we shall pay them into a bank, receiving in exchange the bank's promise to pay to us an equal amount of coins or notes when we ask for it. And so long as we feel sure that the bank will fulfil this obligation we accept the promise—the " bank-credit "—as freely as we accept the coins and notes that we expect to receive in exchange for it.

This bank-credit (or bank-debt—it all depends on whether you look at it from the point of view of the customer or of the bank) cannot, of course, be passed from hand to hand. Instead, a person with bank-credit who wishes to make a payment usually gives to the person whom he wishes to pay an order addressed to his (the payer's) own bank. This order, known as a " cheque," instructs the bank to transfer a stated amount of bank-credit from the payer's account into the account of the person to be paid.

The distinguishing feature of money is that it can always be exchanged for available goods and services. And while that is so, the ordinary person does not draw any distinction between the coin in his pocket, the note in his wallet and his credit with his bank. It is all money—a title to receive goods and services.

(9)

During the past three hundred years, there has grown up a general habit for a person who has money which he does not wish to use for the time being, to pay it into some bank, " to the credit " of his account. This is safer and far less trouble than to look after it at home. The bank sometimes pays interest on the money lent to it in this way. But the chief reason for this habit is that it is very convenient.

If A wishes to pay to B the sum of £100, it is convenient to both if A writes a cheque in payment. Alternatively, A may go to the bank, ask for one hundred £1 notes, which the banker counts and A checks before he hands them to B. B in turn counts the notes before accepting them, and later still, B pays them to his own banker, who will undoubtedly again count the notes before crediting B's. account. No wonder payment by cheque has become increasingly popular, especially where large amounts are involved or payment has to be made between persons at a distance.

A bank's customers are, of course, always paying money into the bank and also continually drawing it out. But, as a whole, they never withdraw at any one time more than a small proportion of what they have deposited. The bank prefers to lend or invest the rest, rather than to let it lie idle. The consequence is rather curious and very important.

When a bank makes a loan, in the ordinary way the borrower does not already possess a credit balance at the bank. All the same, the bank allows him to write cheques or to draw out notes and coin up to the amount of the loan, and promises that any such cheques will be "honoured" on demand just as if the borrower had a credit balance. If the borrower now draws out notes or coins, or if he writes a cheque in favour of some other person, that act does not reduce the bank's debt to any other of its customers. Their " bank-credit " is unaltered. But the notes and coins are additional money in the hands of the borrower, and each cheque is eventually paid into somebody's account at the same or another bank, where it increases that person's " bank-credit " to a similar amount. The total money supply has been increased.

The same thing happens when a bank buys Government Stock or makes any other investment. The purchase money goes into somebody's account at some bank. Nobody's bank-credit is reduced, but new " bank-credit " is created.

(10)

However, the power of the banks to create new money in this way is limited by the obligation of the banks to pay out coins and notes in exchange for bank credit on demand. If ever customers were to doubt the ability of any bank to pay out coins and notes on demand, that bank would lose the confidence of the public, upon which all banking depends. In Britain, experience has shown that, given normal conditions, the banks can meet all likely demands if they hold in "cash" a sum of not more than 8% of their liabilities to depositors, and the banks take care not to let their "cash" fall below that ratio of safety. So, if the banks find their liabilities to their customers tending to exceed twelve-and-a-half times their holding of "cash," they take steps to call in loans and sell securities in order to reduce the amount of bank-credit. This improves the proportion of its "cash" to its liabilities.

Banks do not venture to allow their safety ratio to be exceeded. At the same time, they do not like their cash-to-credit ratio to be bigger than necessary—for that means that they are holding an unnecessary amount of idle "cash," earning no profit. So in practice the banks keep as closely as possible to their conventional ratio.

In many countries by far the greater part of the money is in the form of bank-credit. The proportion varies from country to country, but in Great Britain round about 1½% of our money consists of metal coinage, 17% of paper money and 81½% of bank-credit.

Now bank "cash" does not consist, as might at first be supposed, only of coins and notes actually in the possession of the banks. The banks in every country to-day form a system, whose focus is the Central Bank of the country concerned. There are, of course, national differences, but the banks of every country deposit much of their money with the Central Bank, retaining in their own vaults and tills only so much in coins and notes as they feel they need for day-to-day use. Just as you or I draw no distinction between the money in our pockets and at the bank, so the banks regard their deposits with the Central Bank as "cash." In Great Britain, for instance, the "cash" held by the ordinary banks consists of the notes and coins in their possession, and of their balances at the Bank of England.

(11)

Now, when a Central Bank makes a loan or receives repayment of a loan, the effect on the national money supply is much more far-reaching than when an ordinary commercial bank does the same thing. Suppose, for instance, that the Central Bank lends a sum to the Government. This money, which is paid away by the Government to the army, the civil service and so on, finds its way into the commercial banks who in turn deposit a great part of it in the Central Bank. The Central Bank has thus a new asset (the amount owed to it by the Government) and a new liability to the commercial banks. The commercial banks have new liabilities in the additional bank-credit held by their customers, and thus there has arisen a direct increase in the money supply. But, besides that, the commercial banks have additional deposits with the Central Bank, which they regard as "cash." They can now lend and invest, increasing the money supply with each such transaction, until once again their liabilities reach twelve-and-a-half times the amount of their "cash" assets.

Similarly, when the Central Bank receives repayment of a loan or sells an investment, bank-"cash" is destroyed. Loans and investments of the commercial banks have to be called in or sold to maintain the appropriate ratio. The amount of money is reduced.

Loans of the Central Bank and repayment of loans, investments by the Central Bank and sales of investments, are thus the dominating instruments of national money policy.

(12)

To show the ease with which money can be created, it is useful as well as interesting to study the actual figures of the money supply in Great Britain and Northern Ireland during the last war.

In August 1939, the total note issue of the Bank of England was £550 million, while the note issue of Scottish and Irish Banks within the United Kingdom amounted to about £30 million. Coins of various kinds added up to about £79 million. Of this total of £659 million in notes and coins, the Banks held £194 million, so that the general public in the United Kingdom held about £465 million. At the same time the liabilities of the commercial banks to their depositors added to those of the Bank of England (excluding bankers' deposits) amounted to approximately £2,711 million. The amount which the general public can spend at any time is measured by the total indebtedness of the banks to their customers added to the amount of coins and notes in circulation outside the banks. This gives a spending power of round about £3,176 million within the United Kingdom in August 1939.

By the end of December 1945, the total note issue of the Bank of England had risen to £1,400 million, Scottish and Irish notes within the United Kingdom had increased to £82 million and coinage to £132 million—giving a total of £1,614 million in tangible money. Of this, the Banks held £259 million, so that the general public held notes and coins to the value of £1,355 million. The total liabilities of the commercial banks to their depositors added to those of the Bank of England (excluding bankers' deposits) had risen to about £5,658 million. The total spending power of the public had thus increased to £7,013 million.

In just under 6½ years, therefore, the public spending power in the United Kingdom increased from £3,176 million to £7,013 million. Of this £3,837 million increase, £53 million was due to further issues of coinage, while £850 million was due to increases in the Bank of England note issue. Of the rest—a matter of £2,934 million—£52 million was due to the issue of additional notes by Scottish and Irish Banks, but £2,882 million resulted from increased bank loans and bank investments.

(13)

The foregoing figures show (*a*) how, when more money is needed with sufficient urgency, the mechanism already exists to create it to any required extent : and (*b*) how the regulation of the money supply bears no necessary relation to the supply of goods and services available for sale to the public. Indeed, the requirements of the merchant and his customer for money to trade with may often clash with the ideas of those who are able to regulate the national money supplies with quite other ends in view.

And this is a fact to be borne steadily in mind when we seek the reason for the "lack of balance" in our economy. Trade and production are stimulated by abundant spending power ; a deficient supply of money on the buying side of the market causes depression of business and slump in prices. But these are haphazard and insufficient instruments for achieving balance between the prices of available goods and services and the amount of money at hand to claim such goods and services. We must think out some better method of ensuring such a balance.

CHAPTER 4

FULL EMPLOYMENT

(14)

Under present arrangements, the money with which people can buy the available goods and services is usually distributed in the first place as wages, salaries or dividends paid out by industry. The money may reach the would-be customer directly, as in the case of a workman who receives his wage. Or it may reach him indirectly, as in the case of a solicitor or shopkeeper who is paid his fee or his price by the workman ; or more indirectly still, as in the case of a civil servant, whose salary is paid to him out of money collected in taxes from the workman, the solicitor, the shopkeeper and others. Accordingly, in addition to its chief function of producing the goods required to satisfy human needs, Industry is to-day the normal medium through which is distributed the money which enables customers to buy those goods.

So, when seeking reasons for the lack of balance between the money of the people and the prices of goods and services on offer, we can conveniently consider the problem from two aspects : (*a*) why at the present day many people needing goods or services are unable to obtain the money to buy them and (*b*) why the money distributed by Industry (irrespective of to whom) does not, under present arrangements, achieve a proper distribution of the products.

(15)

Every political party includes the provision of full employment as part of its policy. But what is meant by this term ? Most people seem to identify full employment in some vague way with social security. It appears to them as a safeguard against such degradation and misery as harrassed the unemployed in the years between the two great wars. But that is hardly precise enough for our present purpose. The definition of full employment given by Sir William Beveridge is "*A condition in which there are always more jobs waiting than men and women looking for jobs.*" That such a condition is possible is generally taken for granted, but is it so in fact ?

The provision of what people need involves work in some form or another. Such work may be that of human beings or of machines, or of both : and man is daily learning how to direct the forces of nature and use their energy for his own ends. A new era began when James Watt improved the steam engine of his day and effectively harnessed to man's service the energy stored up in coal ; and from that day to this men have been learning how to utilise other sources of natural energy until at last they have learnt how to break up matter itself and to release energy of a new and cataclysmic kind. The atomic bomb represents the present pinnacle of human ingenuity in the release of energy for destruction. Further research will enable us to use this inexhaustible energy for beneficial instead of for destructive ends. We can afford the money, the time, the talents and the men to release atomic energy for destruction. Some day the same energy will be harnessed as a willing servant to help man in constructive work.

But when that happens, what will become of existing plant and equipment, and what will become of the demand for work for all?

At the present time there is, of course, in many areas a great lack of goods and services. For some years work—hard work and plenty of it—will be necessary to make good the ravages and the wastage of six years of war. During the war, however, invention and research have discovered new possibilities of power, and machines have been developed, improved and applied over an ever widening field to take the place of human labour. It is doubtful whether it will ever again be possible, without deliberate sabotage of effort, continuously to provide full employment for all.

(16)

But let us first ask another question ; What is the *purpose* of employment ? About this, there is much confusion of thought. Most people have not made up their minds whether employment is required to provide goods or to distribute money—or merely to keep idle hands out of mischief. Social Creditors hold that the first and only true purpose of employment is to supply the goods and services that people want : that the supply of such wants is simply a functional activity of men and women helped by power-machinery and—as every engineer will agree—is done most efficiently when it requires the least effort, whether human or mechanical. Social Creditors also think it inefficient and confusing to look on Industry as the normal source of incomes : and finally, they hold that it is not the true purpose of employment to deprive people of leisure in order to avoid leisure's particular problems.

Of course, people like to be doing things and making things, and are by nature very socially inclined. One of the miseries of unemployment is the lack of worthwhile occupation. And in a society which still thinks in terms of scarcity, unemployment is never made attractive, even when goods are plentiful and paid jobs are few. Want and misery often lead to hate and envy. If it is only through wages that most people can satisfy their needs, then the scramble for paid jobs leads to antagonism, and failure in the scramble leads to a feeling of frustration. When paid jobs are few, each man appears the enemy of his fellow, instead of his partner in a common task. But is it really lack of employment, or is it lack of income and lack of something useful to do which underlies the wretchedness of unemployment? If goods were available in plenty and there was the money to buy them, would there be the same demands for "full employment"—especially if there was a choice of pleasant (though possibly unpaid) occupation open to all?

(17)

Scientific progress, by decreasing the proportion of human effort used in supplying goods and services, is increasing the possibility of human leisure. This will make the present wage system more and more inadequate to distribute what is produced. Some people might jump to the conclusion that the remedy for this lies in a return to earlier methods. But is there really any merit in taking ten hours to produce by hand what can be produced (and often far better) by a machine in under ten minutes? Fortunately, the number is increasing of those who recognise that the present tendency of Industry to replace men by machines raises an acute problem only because most people depend upon wages and salaries for their daily bread.

The reason why a man goes to work is generally to obtain money and with it the things he really wants. He may take a pride in his work, but most often the real end in view is the drawing of an income rather than the rendering of a service. Even the kind of employment in which a man finds himself is frequently a matter of chance rather than of choice. The need to procure an income is often so acute that he takes the first job offered. Those men who are able to choose their work are the lucky ones. The average man goes to his daily work looking forward—if he is fortunate—to his annual "holidays with pay."

(18)

The general outlook on the problem of unemployment is still based on an idea handed down to us from ancestors living in very different conditions—the idea of "no work, no pay." Although in recent years a strict application of this principle has already proved impossible, none the less the principle still underlies our employment policy. Of course, until we have recovered from wartime dislocation and destruction, a policy which necessitates full employment is appropriate, so long as the real object is to get needed work done. Only incidentally and temporarily should employment be regarded as a means to distribute incomes.

If we manage to avoid a new war, the time will come when, in spite of shorter working hours, higher standards of living and quicker replacements, there will not be sufficient paid jobs for everybody. That being so, we should begin to plan, right now, for man's entry into his inheritance of leisure and plenty.

But what of the growing number whose paid work will be no longer required to produce goods and services for others? Are they to have liberty to choose how they will spend their time, or must they pass their days queueing up for jobs? Is their leisure to be "holidays with pay," or regimented idleness on minimum subsistence? Are they to be regarded as heirs of an age of plenty, or written off as failures, to be goaded into a desperate fight for somebody else's job?

One of the marks of civilisation is the increasing amount of leisure available to mankind, and it would seem unnatural and absurd that those on whom this leisure is conferred should be thereby deprived of the means of enjoying it. The so-called problem of unemployment, although usually regarded as a problem of finding work, is really the problem of unpaid leisure. It was tragic to see, before the war, processions of "unemployed" demanding work as a means to live, when enough food and clothing were there for all, but not suffiient paid jobs to go round. It would be even more tragic if the same problem were to arise again, solvable only by the outbreak of an even greater war.

CHAPTER 5

PRICES AND PURCHASING-POWER

(19)

In the period between the two world wars one could see, in full shops and empty purses, a clear answer to the question "Have the people enough money to buy all they want of that which industry is ready to supply?" Obviously that was not so in those days. So the productive system was slowed down, in an endeavour to lessen the surplus of goods which, however greatly needed or desired, could not be bought or sold.

After the second world war, the answer was not so clear. Indeed, there seemed for a time to be too much money about. So we must remind ourselves that, added to the money distributed in the course of providing the services or producing the goods then available, there was also a substantial amount of money that, during the war, had been created and issued to the public in respect of the supply of goods and services which never came on the market. Together these formed an aggregate sum greater than the prices of what was for sale. But this extra money was not normal. Normally, the total amount of money paid out in respect of the provision of goods and services is chronically insufficient to distribute them satisfactorily. And gradually the position altered from one of "too much money chasing too few goods" to the more familiar one of "too little money to buy the goods on sale."

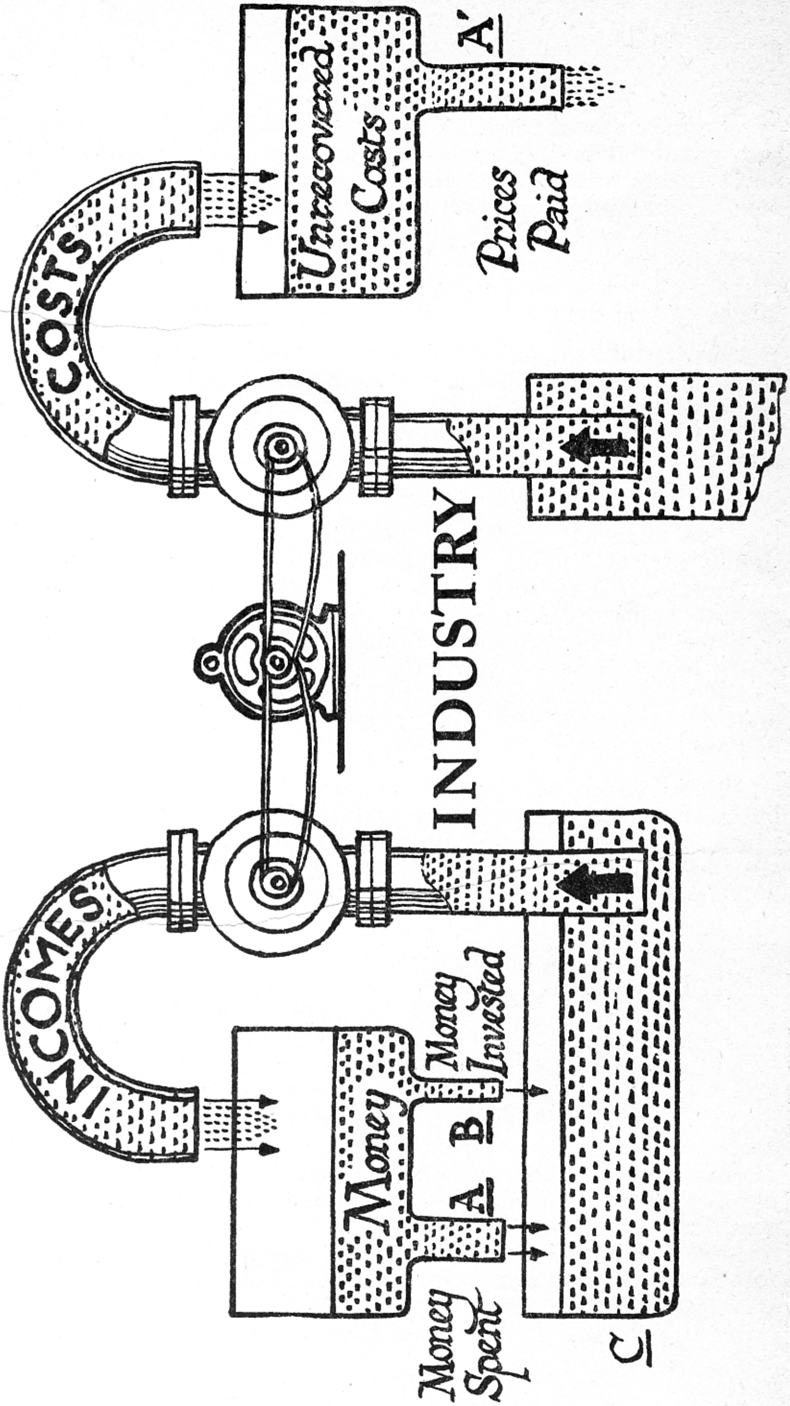
Now why is this? There are, of course several explanations, for it is seldom that any economic condition can properly be attributed to any single cause uninfluenced by others. Accordingly, the following are various explanations of what is, after all, a matter of experience.

(20)

The financial "cost" of providing goods or services is simply the total money paid by Industry in respect of their production. That portion of the money which reaches the general public, reaches it as wages, salaries and dividends with which to buy goods or command services people desire. Then the act of buying starts the money on the reverse course. The turning point is the counter of the retail shop. This is the limit of the outward flow, and as money passes over the counter it flows back into Industry again.

Now, under our present financial arrangements, every business "cost" must sooner or later be recovered through prices. If a business man pays away a greater amount of money than he is able to recover, he has to go out of business. No industrialist makes payments unless he expects to recover them through prices.

Let us now assume that money is flowing from Industry in the form of wages, salaries and dividends at the rate of £1,000,000 weekly. This means a weekly flow of £1,000,000 to people in incomes. But it also means that every week there is an addition of at least £1,000,000 to the amount that industrialists, to keep solvent, must eventually collect from people in prices. Let us also assume that the average amount spent by people each week on the goods they need is £950,000 and that the remaining £50,000 is invested in Industry and then used to pay for the erection of new premises and machinery. In this way the whole £1,000,000 flows back into Industry, and there remains with possible customers no more money than previously. But because the amount of costs recovered through prices is only £950,000 the net amount of costs awaiting recovery through prices is increasing at the rate of £50,000 per week.


INCOMES
COSTS
Unrecovered Costs
A'
Prices Paid
INDUSTRY
Money
A
B
Money Spent
Money Invested
C

The effect is a gradual piling up of unrecovered costs, physically represented by goods of all descriptions. Some are the kind of goods that people need : others consist of factories, machinery and things that people do not want, but which are used in the production of the goods that people require. The cost of both sorts of goods has sooner or later to be recovered from the public in the prices charged for consumers' goods. So gradually it takes longer and longer to recover in prices what has been paid away. In many cases the only thing for industrialists to do is to reduce output while accumulated stocks are being sold. But this, of course, reduces the flow of money to would-be customers, and with it their power to buy the goods that Industry is so anxious to sell.

(21)

On the left-hand side of the accompanying diagram, Industry is represented as a pump from which there flows a stream of wages, salaries, dividends, etc., into a storage tank. The contents of this tank represent the spending-power of the public. At the bottom of the tank are two pipes, through which money flows out. Through pipe "A" there flows that portion of the public spending-power which is used to buy goods and services. Through pipe " B " there flows money for the expansion of equipment.* Both pipes discharge their contents into a sump " C," from which the same money is in due course pumped again through Industry, into the left-hand tank. Here, then, we have an illustration of the way in which money flows and re-flows between Industry and the public.

Every payment made to individuals in the course of production can be regarded in two ways. It is an addition to the money available to buy what the public wants : but at the same time it represents an addition to unrecovered costs. So on the right-hand side of the accompanying diagram we see Industry, again represented as a pump, pouring out a stream of costs equal to the flow of incomes from the left-hand pump. These costs pass into another storage tank, the contents of which represent the total amount of payments made to individuals in the course of production which have not yet been recovered in prices. This tank has but a single outflow pipe.

*The development of industrial extension is financed either by direct investment on the part of the public—as shown in the diagram —or by using undistributed profits. Each method has a similar effect on the spending-power of the public. In the diagram, the result of the use of undistributed profits could be shown as a flow of costs through the right-hand pump, without any similar flow of income through the pump on the left.

The money which people spend on goods and services reduces not only their available spending-power, but to an equal extent the total volume of payments still to be recovered through prices. The outflow along pipe A is, therefore, equal to the outflow along pipe A′. The inflow into each tank is the same: the outflow from the left-hand tank is greater than the outflow from the right-hand tank by the amount flowing down the pipe B. The contents of the right-hand tank are, therefore, continually increasing in comparison with those of the left-hand tank. In other words, the total amount of unrecovered costs is always expanding in comparison with the amount of the available spending-power.

(22)

We see, therefore, that under normal conditions a modern industrial community is unable to absorb all its own production. Unrecovered costs increase, physically represented by accumulating stocks and unused industrial capacity, until Industry can struggle on no longer. Then its wheels slow down, and unemployment and poverty follow.

Of course, money invested in Industry is paid out again to the public as wages and salaries, but at the same time an equal sum is added to the costs to be recovered through prices. There still remains the "gap" between such costs and the money available to meet them.

Here, then, is one explanation of the shortage. When money is diverted from buying goods to paying for the extension of plant and machinery, the amount available to meet the costs of production becomes that much less than the costs to be met, and unless new money can be found from some other source —as to which see Chapter 6—there is a gradual lengthening of the average time which has to pass before a payment made in the course of industrial production can be collected from the public through prices. Yet, if progress is to be made in the relief of mankind from uncongenial toil, it is necessary to finance new processes and to extend the use of mechanical appliances. No serious fault is to be found with the investment of money in productive enterprises: the evil lies in a system under which such investment, far from being an assistance to Industry, tends to act as a clog upon it.

(23)

Another explanation (supplemental and not excluding the others) lies in the fact that most money comes into being when a bank makes a loan or buys an investment, and goes out of existence when such loans are repaid or such investments are sold. Bank loans and advances are usually made to industrialists for business purposes. The borrowed money flows from the bank to the manufacturers—from the manufacturers to the buyers—from the buyers back to the shopkeepers—from the shopkeepers back to the manufacturers—and from the manufacturers back to the bank. Into the bank the money flows in repayment of the loan, and is cancelled as easily and quietly as it was created.

It is natural for manufacturers and shopkeepers to try to recover the whole of their costs before selling the whole of their goods. The repayment into the banks of money collected through prices, before all the goods in respect of which it was created have disappeared from the market, raises a difficulty. The unsold goods and the expanded productive capacity remain, yet (unless something else happens) the quantity of money is reduced to what it was previously and so, generally speaking, is not sufficient to deal with any increased volume of transactions. However, it often happens that other producers obtain new loans from the bank for some new expansion of production or of productive capacity. In such a case, new money is created, and the lack of buying power on the part of the public remains hidden *for the time being*. But only by means of an ever swifter financing of industrial expansion is the system able to carry on.

(24)

The question may be approached from yet another angle. When new and improved processes are continually being introduced, there is a tendency to displace human labour by mechanical power. In every factory the sums paid out to individuals in the course of making or supplying goods become gradually less in comparison with other payments. And so the money distributed by every factory *to individuals* in the course of production is insufficient to buy more than an ever lessening proportion of that factory's products. The rest has to be sold, if possible, to other manufacturers. Accordingly we find an ever increasing inter-factory trade growing up, and more and more attention being turned to the production of plant and machinery.

This leads to two results. (*a*) In this inter-factory trade-cycle there is "caught up" a growing proportion of the total money available, leaving a continually smaller proportion to buy the consumers' goods which, in the long run, carry all production costs. (*b*) In order to distribute sufficient money to enable people to buy the goods they really need it is necessary continually to produce an ever growing quantity of goods, which as individuals they do not require. The machinery already in existence may not be working to capacity—nevertheless the goods produced by it cannot be bought without the aid of the wages distributed in the erection of even more machinery. Only by the continual production of goods which the public does not want to buy can there be distributed to the public the wherewithal to buy the consumable goods they actually do require,

Manufacturers, continually better equipped for production, find no correspondingly increased market for their goods. Before the war, in every industrial country Industry became hampered by its unsold stocks and its unrealised book costs. That is the normal and mathematically inevitable result of the present economic arrangements. Long ago there would have been a complete breakdown of our money-civilisation if it were not for certain other factors which we must now consider.

CHAPTER 6

EXPORT AND WAR

(25)

Our money is not fixed in amount, and a little earlier we showed how "*Bank loans and their repayment, Bank purchases and sales, are in effect the only causes of variation in the total of our national money supply.*" (The Right Hon. Reginald McKenna, 27th January, 1925). The diagram in the last Chapter did not refer to the part played by the banks in financing Industry, but this does not in any way invalidate the argument. New bank-credit created and loaned to Industry would in fact be represented by additional money in the tank " C." This additional money must pass through the industrial pump before increasing the spending power of the people, and, at the same time, it increases by a similar amount the costs to be collected through prices. Additional bank-credit does not lessen the existing deficiency.

On the other hand, an increase in the money supply does for the time being lessen the effect of the gradual piling up of uncollected costs. We all know that when banks lend money on a large scale (whether to the Government or to individuals) Industry is usually more prosperous. Although the additional money generally reaches the public only as incomes after passing through the industrial system, (thus creating additional costs) it improves the ratio of available spending-money to the amount of uncollected costs. So it tends to shorten the average time which passes before a payment made by Industry can be collected from the public through prices.

The creation of additional money by the banks has, therefore, an important effect on the industrial situation. Over a number of years the total money supply tends to increase, although during short periods it may vary up or down. This expansion helps to avoid a total breakdown.

All the same, any important expansion of money on the buying side of the market induces its own particular difficulties. For instance, an expansion of the money supply which is fully justified by the increase in uncollected costs, may cause a disproportionately heavy demand for certain goods. The prices of those goods will tend to rise, and if that affects the cost of living to any serious extent, it may easily cause dislocation in the national life. Also, of course, every increase of money resulting from bank loans and investments reflects an expansion of debt to the banks. For these and other reasons the present method of regulating our money supplies is not suitable to modern needs.

(26)

Nowadays, export is considered as necessary for the continued well-being of every industrial land. Each country strives to export to other lands the things which the inhabitants of the exporting country cannot afford to buy for their own use. It is not a question of interchanging surplus home stocks for the products of other lands : if the people at home are not able to buy the goods which they therefore try to sell abroad, they cannot buy a similar amount of goods received as imports in exchange. The struggle always is to send abroad more than is received from abroad. All the industrial countries of the world, in spite of differences in their circumstances, are engaged in a fight for foreign markets.

In the past, British investors, by lending abroad, have provided foreigners with the means to buy British exports. In this way Britain has obtained employment for its inhabitants, through the production and delivery to other countries of the goods which Britons themselves could not afford to buy. As interest on these foreign investments certain people in Britain became entitled to receive money from abroad, which in the final analysis could only be paid out of money earned through selling goods to people in Britain. The money paid by the

British importers was available to pay interest to the British investors. But, if a creditor country accepts as much of goods and services as it exports, that country, under present financial arrangements, loses the advantage which it anticipates from an export surplus, and faces a continual threat of unemployment for its own people.

So here we reach an impasse. If an industrial country continually maintains an excess of exports, those of its inhabitants who possess investments abroad are in danger of losing not only their interest but their capital as well. But if it does not maintain an excess of exports, it has to accept, under present arrangements, an intensified unemployment problem. That is the problem which the United States is attempting to solve at the present time.

To-day the problem for Britain is not quite the same. This is now a debtor country compelled (under existing arrangements) to earn by its exports not merely sufficient to buy the goods which it needs from abroad, but also sufficient to pay the interest on its loans from overseas—a compulsion which at the present time is fortunately mitigated somewhat by the acceptance of " Marshall Aid " from the United States.

(27)

The difference between the present situation of Britain and that of the United States is briefly this. Britain tries to export more than she imports in order that she may earn the means to live. The United States must export in order to avoid large scale unemployment. The result is the same in each case. Both have insistently to strive for what is rather ironically known as " a favourable balance of trade." And so also must all other industrial lands. All the countries of the world try, not to take goods from others, but to induce others to take goods from them. The intense competition for overseas markets is possibly a most fruitful cause of War, the last and greatest support of the present system.

War is not only a symptom of a profound economic illness ; it is also the occasion of a great increase in the money supply. Only War makes the present system endurable, for during War financial conventions have to conform to practical considerations. Only when the chief danger has passed do our physical and technical capabilities become once again enslaved to financial considerations. It is a terrifying paradox that War—orgy of disorder and destruction—gives to many people a material prosperity which they never experience at other times. The most urgent task of the present generation is to solve the money problem in those periods of preparation for or recovery after War—which one calls *Peace* !

CHAPTER 7

FIRST PRINCIPLES OF SOCIAL CREDIT

(28)

We have seen that the dislocation and distresses of modern industrial civilisation follow more or less directly from the imperfections of the present money system. The industrial depression, unemployment and poverty so characteristic of the inter-war years, were not due to any physical inability to produce the goods and services that people required, or to deliver them when, where and as they were needed. They arose from a failure in the mechanism of distribution. Usually the effective demand of individuals (that is to say their desire for goods backed by money to buy them) is not equal to their collective capacity to meet such desires.

It is unfortunate that Social Credit is generally regarded as only one of many schemes put forward for the improvement of an unsatisfactory money system. It is, in fact, very much more than that. Social Creditors have a philosophy—a way of looking at life. They visualise a state of society which they believe to be not only attainable but also well worth the effort of attaining. But they know that human freedom and individual ideals can only be realised to the extent that people are released from economic pressure. They also know that the evils inherent in our monetary system will not be rooted out except through an alteration of the system itself. Social reforms and industrial reforms are needed, but such reforms can be made effective only if they are preceded or accompanied by reform in the economic system. And that is why Social Credit offers its own suggestions for a revision of our economic objectives and the re-organisation of our money machinery.

(29)

Social Creditors believe that human organisations, from the humblest group to the mightiest State, should only exist to add something to the happiness or well-being of those who compose them. Persons who live in company together, and who thereby gain protection, subsistence and social amenities, have mutual obligations as well as rights : yet so far as consistent with the freedom and rights of others, individual freedom should be as unrestricted as possible. Controls from without should as far as possible be superseded by the free self-discipline of an adult and educated people.

Social Creditors hold that it is incongruous and absurd to substitute electric or atomic energy for human labour, and at the same time retain an industrial and financial organisation based on an underlying assumption that his labour gives to man his only rightful claim to goods. The economic system is, after all, merely a functional activity of men and women for the supply of their material needs. The ideal economic system is one which would satisfy material wants as fully and rapidly as possible, with the least expenditure of energy, whether human or mechanical. The release of human beings from economic compulsion to work is one of the signs of economic progress. Leisure is to be welcomed as a mark of civilisation. The so-called unemployment problem is a direct result of applying scientific methods to industrial processes. It has become an economic and political menace simply because unemployment, as things are to-day, is accompanied by a failure to distribute goods and services, leaving the unemployed needlessly fearful and frustrated.

(30)

The Social Credit proposals for the adaptation of our economic organisation to the needs of people living in this modern power age are based on these principles :—

First : that the effective demand of the community as individuals must be sufficient to enable it to buy the goods and services which by individual or corporate effort it is able to provide or obtain from abroad in exchange for such goods and services.

Secondly : that the title of an individual to obtain goods and services must become less and less dependent on his or her direct contribution to the production of goods and services.

Primarily, of course, the Social Credit proposals are designed to effect a proper distribution of all that can normally be made available. Unhappily, two world wars in a single generation have not only diverted factory capacity and labour power away from useful production, but have also caused widespread destruction of real wealth and far-reaching dislocation of business. For many years before the second World War, Social Creditors had been foretelling it, and that it would reduce much of mankind to a condition of want. And, indeed, this is what has happened. It is true that, under the stress of war and stimulated by fear, nations have encouraged their scientists and inventors to improve industrial plant and to increase technical skill. It is true that for this reason some industries found themselves after the War better equipped than ever before to supply an abundance of cheap and good commodities. But it is also true that this applies mainly to the industries that manufacture consumer goods, and that such industries cannot produce plentifully unless they are supplied with abundant power, fed with ample raw materials and served by an efficient transport system. It was not only in Great Britain that the development of power-plants was restricted before and curtailed during the war; that coal-mining and agricultural industries depreciated; and that the railways were starved of the funds necessary to modernise them or even to maintain them satisfactorily.

It is clear, therefore, that our economic problems must be tackled in two stages. A short-term policy is required to make good the destruction of war, to equip our basic industries, to straighten out the dislocations. Our industrial and agricultural capacity must not be physically strangled in "bottle necks," or financially suffocated in international counting houses. And a long-term policy is needed to make certain that never again is the world driven to desperation and war by its failure to distribute its abundance.

CHAPTER 8

PRESENT POLICY

(31)

Because of the special difficulties resulting from the war, the economic problems of each war-stricken country call for two programmes—one dealing with immediate reconstruction, and another to deal a little later with the problems peculiar to this age of power machinery.

The immediate programme and the long-term programme cannot be identical, but they must not be incompatible. While we are living through this period of reconstruction, we must keep our hopes fixed on and our plans laid for the future. We must be keenly on our guard that present austerities and controls do not make us unready or unfitted for future abundance, leisure and freedom of choice.

The reconstruction programme must be one of *encouragement.* In many lands a general sense of futility and frustration prevails. The anticipation that hard work and enthusiasm will probably lead to a hold-up due to lack of materials, or of orders, and the feeling that after all our struggles we shall merely find ourselves back in the old system—these fears are enough to drive the heart out of a people. It must be shown that there is a way to use plenty for the good of man, and not for his destruction. Men must realise that there is a worthwhile future, not necessarily too far ahead.

During this period of physical and spiritual recovery we must make certain adjustments in our financial arrangements. These in turn will prepare the way for liberty amidst plenty. The proposals of this Chapter are put forward with that end in view.

(32)

The Army, the Navy and the Air Force are departments of the social structure which cannot safely be left in private hands. Similarly, the issue and recall of money is a power far too important to be left under private control. Every sovereign state must take upon itself full responsibility for the money needed by its citizens, and such money should no longer reflect interest-bearing debt to the banking system.

In many lands, of course, the State has nationalised the Central Bank, and the fiscal department reputedly exercises general control over banking arrangements. In such countries, the Government mints metal coinage, and the Central Bank issues notes as the agent of the Government. But by far the greater part of the money in these countries only comes into being when a fresh *debt* is created to the banks, and only remains in existence as a reflection of such *debt*. Here in Great Britain, the Treasury theoretically exercises control over banking arrangements generally. But who advises the Treasury, and along what lines and to what ends are its controls imposed? The growth of controls which appear to have no other aim than to postpone the breakdown of an unworkable money system is one of the most disquieting features of the present day.

The issue of a truly national money and the adoption of a truly national money policy ought not to be delayed. National money issued by the Government and backed by the resources of the country is a sign of financial emancipation. Borrowing by the Government from the Banks is a sign of financial subservience.

(33)

But while we urge the need in every land of a truly national money system, we must be awake to the dangers arising from centralised power. It would serve little purpose to replace the pyramid of power inherent in the present debt system by another pyramid of power with state officials at the apex. For, as Douglas so clearly pointed out in *Economic Democracy*, however sincerely those at the apex of the power-pyramid originally intend to serve the interests of the community, they inevitably come to delight in power for its own sake and exercise it for the maintenance of their own supremacy.

At the root of the Social Credit philosophy lies its emphasis on the need for freedom of choice and expression. The aim of Social Credit is to encourage these, accepting only such limitations as are necessary to preserve similar freedoms in other people. The part played by the State in money matters should, therefore, be limited to providing and maintaining the money which, according to impartial calculation, is needed by the people. The State should, in normal times, seek as little as possible to control the individual's choice as to how he spends his money.

(34)

We know, however, that an increase in the amount of "cash" held by the banks permits (but does not compel) them to make new bank loans and investments. In this way, as we saw in Section 10, the banks are able to expand the total money supply to twelve and one-half times the amount of the increase in "cash." But, on the other hand, the banks are able to agree among themselves that they will not expand the money supply. They may even decide that it would be more profitable from their point of view to reduce the money supply by calling in loans and selling investments. And so, if the State is to provide the additional money needed for national purposes, it is necessary to make sure that banking interests do not make (or recall) loans and buy (or sell) investments in such a way as to create uncertainty and crisis in order to discredit new arrangements of which they do not approve. But if the State does not take over the commercial banks (which, in our view, is not necessary), what is the best way of achieving this end?

Possibly this would be to enact that in future the liability of the banks to their depositors uncovered by national money (or claims on national money) in their possession should not vary by more than, say, 5% from some authorised amount. The authorised amount might well be the amount by which, at the time of such enactment, the total of bank liabilities did, as a matter of fact, exceed the "cash" actually held by them. Such a requirement would not, in itself, affect the quantity of money in circulation, but it would ensure that in future the total quantity of money would only vary by the amounts issued or withdrawn by the State. The permitted margin of 5% would provide a necessary elasticity. Additional money needed for national purposes would be created by the State (as Treasury notes were issued in Great Britain during the first phase of the Great War) but without leading to any further increase in the money supply through new creations of debt to the banks.

(35)

In an earlier Chapter it was shown how, during the last War, approximately £3,837 million was added to the money supply in Great Britain, of which £2,934 million was created by the banking system chiefly through lending to the Government or purchasing Government securities. And of course, something similar happened in other countries. Now when banks take up Government securities, they pay with "credit." This credit is, in fact, a promise on the part of the banks to provide money at request up to the extent of the credit. So, initially, this "credit" costs the banks nothing. In due course, however, this "credit," or the money represented by it, is used by the Government to pay for goods and services. In this way it passes into the hands of the public, by whom it is ultimately paid back into the banks. So, finally, the price paid by the banks for the Government securities is simply the increased liability of the banks to their own customers, shown by an increase in the amount of deposits.

Now let us suppose that instead of borrowing all this money or credit from the banks, issuing interest-bearing securities in exchange, the Government had printed £2,934 million of notes. These notes would have been used in exactly the same way and for the same purposes as were the credits received from the banks in exchange for interest-bearing securities. The money would have reached people's pockets, and people would in due course have paid the money into their accounts at the various banks. The banks' liabilities to their customers would have been increased in exactly the same way as actually happened. But the banks, instead of holding interest-bearing Government securities, would now have held national money. So it seems only commonsense to suggest that steps should be taken to place the banks in much the same position as if the Government has actually issued its own notes instead of selling securities to the banks. A State should issue money, not borrow it.

Every land has its own individual problems and circumstances. But the author and many others are of opinion that at least in Great Britain, the Government should at an early date redeem with non-interest-bearing certificates (exchangeable, if required, for legal tender) all Government securities held by the banks. At the same time, the Government should correspondingly reduce the permitted amount by which the liabilities of the banks to their depositors may exceed the amount of national money in the banks' possession. This action would provide a considerable annual saving to the tax-payer.

(36)

The above suggestions do not seek to interfere with the functions of the banks as genuine moneylenders or as depositories for the peoples' money. But a change in banking practice would certainly follow their adoption. The earnings of the banks would be adversely affected by the replacement of their interest-bearing investments by non-interest-bearing assets and also by the increased ratio of national money to bank credit. So it would become necessary for the banks to make a charge to their customers for keeping their accounts. This is no new idea. In its original form "banking" meant placing money or valuables with a banker for safe custody, and there seems no reason why in future—as formerly—a bank's customers should not pay for the convenience and safety of placing their money with the bank, and for the facilities afforded by cheque payments.

The charge made by the banks for keeping their customers' accounts would result in some withdrawals for the purpose of making loans or investments elsewhere. But most recipients would find it convenient to redeposit the money, and the Government itself could encourage the use of cheques. On the other hand, some of the money withrawn from credit accounts would be paid into overdrawn accounts and so cancelled. To counteract any undesirable decrease in the amount of money in circulation, the State should in such cases issue more new national money—a useful and inexpensive source of additional funds.

But there would be a further result. The payment rather than the receipt of interest on money deposited in a bank would affect interest rates generally. It would be unprofitable to leave money in the bank, so that many depositors would much prefer to lend or invest, and consequently rates of interest generally would fall. Usury, which for so many years has defied the denunciations of religious leaders and social workers, and withstood all legislative efforts, would disappear gradually, inevitably and naturally—and few would mourn its passing.

CHAPTER 9

THE NATIONAL CREDIT OFFICE AND THE JUST PRICE

(37)

No doubt we shall at last sort things out and regain our productive powers. But shall we again, through inability to distribute what we can make, have to suffer the terrible consequences of our inability? (Indeed, this question is already a very pertinent one in America, where the United States, with its ever-expanding productive capacity and its command of almost unlimited supplies of raw material, is saved from an industrial crisis of first magnitude only by its vast re-armament programme, and its export of aid and equipment to withstand or forestall the spread of Communism). Or shall we change our outlook and our methods, realising that the first object of a sane economy is to ensure that the individuals who together comprise the community are able to obtain the goods they need, up to the full extent of their power as a community to supply them? If so, the amount of money in circulation must no longer be subject to manipulation by financiers or (what is almost equally dangerous) to control by short-sighted if well-meaning bureaucrats. The money supply must be regulated on some automatic basis, and then it becomes a very important matter to see that the automatic basis is a correct one.

The value of money depends on people's ability and readiness to supply goods or services in exchange. But capacity to supply goods or services (whether they are wanted or not) is not of itself an appropriate basis for the regulation of the money supply. The real wealth of a community lies in its ability to deliver goods and services *when, where and as they are required*, and it is this real wealth of the community that is the only appropriate basis for its money supply. Each increase in real wealth must be accompanied by a corresponding increase n the buying-power of the public.

(38)

After a sufficient time for re-organisation, the physical powers of people to supply the goods they need will steadily increase. There must, however, be no easy assumption that the production of food of a high quality or in sufficient quantity can continue unless men pay more than mechanical attention to agriculture, and appreciate the difference between the living processes of nature and the inanimate processes of machine manufacture. Men's material wants can and will be extended, and money is still the best means so far discovered of distributing goods and services to people according to their choice. It is necessary, therefore, to consider the best way of placing the right amount of buying-power into the pockets of the people.

The calculation of the amount of new money needed from time to time is a technical matter. Some national authority must, therefore, be set up to collect and collate the necessary information, including the increase in the power of the people collectively to supply the goods and services they need individually. This *National Credit Office* must be an independent body of statisticians, entirely free from political influence or control.

There is, however, a danger in the issue direct to the public of additional money only limited by the ability of Industry to deliver goods and services as, when and where people require them. This is the danger of " inflation "—that is, a rise in the general price level (or what is the same thing, a fall in the purchasing power of the money-unit) due to the increase of money demand in relation to *goods actually on the market.* The full benefit of basing the national money system on the national real wealth can be realised only if some method can be devised and applied to prevent additional money being absorbed by higher prices.

(39)

We have already seen that no proposal for increasing the money in the hands of the people is likely to improve their condition to any significant extent unless it provides for either (*a*) the sale of goods at a price which does not include every financial " cost " of their manufacture or (*b*) the supply of additional money to people in other ways than through wages, salaries or dividends. Social Creditors therefore recommend that goods should be sold retail at only a proportion of the financial cost of their production ; that this proportion should be calculated in accordance with Industry's ability to meet the increased demand ; and that the difference between the financial cost of the goods (which would include a permitted percentage of profit for the shopkeeper) and the abated sale price under this plan should be paid to the shopkeepers out of issues of new money.

To what extent should prices be reduced ? The real cost of what we produce is what we consume during production, so it would seem appropriate that the total retail prices of the goods produced in any period should equal the financial cost of the goods consumed in that period. In order that people's demand should equal Industry's ability to supply, the retail selling price of goods in any period should be the same proportion of the financial cost of their production as the (gross) national loss of real wealth during such period is of the (gross) national gain of real wealth. (In " loss " we include exported goods and everything which lessens physically the national capacity to deliver goods and services on demand. In " gain " we include imported goods and everything which in fact increases such national capacity). The reduced price ascertained in this way is the financial equivalent of the real cost of the goods sold, and is what Social Creditors term "*the Just Price.*"

For example, if in any period the nation's gain of real wealth (by production of consumable goods, capital equipment and imports) is 10 units, and the nation's loss of real wealth (by consumption of consumable goods, depreciation of capital equipment and exports) is 9 units, then the Just Price of retail goods would be nine-tenths of their financial cost. The remaining one-tenth of the price would be paid direct to the shopkeepers by the State, using new money based upon the net increase in the nation's real wealth.

The calculation of the appropriate price-discount is, of course, another technical matter which it will be appropriate to delegate to the National Credit Office.

(40)

Sale under cost! What an unsound proposal! But is it? If we think in material and not in financial terms, it becomes clear that the actual cost of making goods is the material used up and machinery worn out in the making. Physically, what does a country gain during any period? It gains new factories, new processes, new goods of every kind produced or imported—in other words, new ability to supply material needs. And what does the country lose during that period? It loses plant worn out, machinery scrapped, mines worked out and goods consumed or exported. The country gains one lot of real wealth at the cost of another lot of real wealth, and generally, as we know well, the gain of real wealth in any period is greater than the loss.

Nor is sale under cost any longer a novelty. During the recent World War many Governments were compelled by circumstances to adopt the principle of sale under cost for certain types of goods. In Great Britain, for example, eggs, flour, bread, oatmeal, meat, potatoes, sugar, milk, tea, bacon, carrots, ham and certain other classes of goods were retailed at a price "below cost," notwithstanding that to do so cut right across previously accepted financial theory and practice. Although the extent of the price reduction was fixed on no actuarial basis, and the cost of the "subsidy" was intended to be recovered through taxation, there is here the beginning of a practice which, if scientifically adapted, might develop into the Social Credit Just Price.

(41)

One of the remarkable features of the Social Credit Proposals is the small amount of compulsion likely to be required to ensure their smooth working. There is, for instance, no suggestion that traders should be *compelled* to join in the Social Credit Price-Discount scheme, although a very strong inducement will be offered them to do so. A trader accepting the conditions of entry into the scheme (which will probably include an agreed limitation on his profit on each article sold, so that the more he sells the greater his total profit) will be able to offer his customers the advantage of purchasing at a discount. The trader who wishes to remain outside the scheme will be allowed to do so. However, to benefit by remaining outside he would have to charge a price covering all costs of production, and also a profit on each article greater than that permitted to traders within the scheme. And he would have to find customers for his goods at this substantially higher price.

Three other things should be noted. The first is that most proposals for increasing the purchasing power of the public entail first an issue of new money and secondly some means to prevent prices rising. The search for such means is generally unsuccessful—and one more hopeful scheme passes into limbo. The Social Credit proposals, however, *begin* with prices. The issue of the new money from time to time required is itself the means whereby the prices are not merely prevented from rising but are in fact reduced to their proper level.

The second point to be noted is that the issue of new money under the Just Price plan comes about *after* people have bought something they want. Until goods are sold there is no reimbursement to retailers out of new money. And a third point to note, paradoxical as it may sound, is that the price discount proposal is not essentially concerned with the regulation of prices or the flow of new money into the pockets of the consumers ; its main object is to equate our powers to buy with our powers to produce for sale. The governor fitted to a steam engine is really a controller of speed, and only regulates the steam as a means to that end. Similarly, the price discount is really a mechanism to ensure that our power to buy shall be neither greater nor less than our power to supply. It only regulates prices and provides for the issue of new money as a means to that end.

Shortly, we have already seen how the supply of goods is generally greater than the demand. To equate the effective demand of the people with the power to supply, Social Creditors propose a price-discount mechanism which would result in lower prices and an inflow of money. However, in wartime there is in many countries a monetary demand for consumable goods in excess of the immediate supply. It is noteworthy that, in such circumstances, a purchase tax is often imposed, which results in higher prices and the extraction of money from the pockets of the people. It might be said that the discount is then being applied negatively. It is perhaps permissible to suggest that such purchase-tax machinery is also capable in happier times of development into the Scientific Price Discount of Social Credit.

CHAPTER 10

NATIONAL DIVIDENDS

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We have already seen that it is necessary for the members of a modern industrial community to be able to obtain goods and services partly at least with money that has not passed through industry in the course of their production. Only in this way can the people as a whole claim, if they so desire, all of what by their corporate effort they are able and willing to provide.

We have also seen that an unsupplemented wage system is an anachronism in an age of machine power. To a large extent, such a system makes the performance of paid "work" a condition of obtaining goods and services when at the same time every scientist and engineer is trying to produce as much as possible with the least expenditure of time and energy.

In times of war or of rearmament, when new money is made plentifully available to produce goods and services which the consumer as such does not seek to buy, and every man's labour is needed for the urgent tasks of defence, the foregoing considerations do not seem particularly relevant, yet essentially there are two vital problems—first, how to ensure that every increase in the power of the people as a whole to provide goods and services shall be accompanied by a corresponding increase in the possible demand for such goods and services; and secondly how to ensure that the receipt by individuals of the money they need is less and less dependent on their performing paid "work." Unless these are solved there is no prospect of any permanent peace.

These problems are quite distinct. The Social Credit answer to the former is contained in its proposal of the Just Price. Let us now turn to the second problem, to answer which Social Credit proposes the issue of National Dividends.

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In Great Britain, as well as in other countries, the wage system has for many years been supplemented by non-industrial payments, and of these Old Age Pensions provide an illustration well to our point. The claim of the Old Age Pensioner to his weekly sum does not usually depend on the work he has done or the services he has rendered to the community. (It is true that if he has not attained a certain age he has no right to a pension. But that is quite another matter). His title to a pension rests on his membership of the Community.

To extend the arrangement, by abolishing the age and means restrictions and establishing a true system of dividends for all, would go far towards solving the problems arising from the leisure inherent in any modern society. No longer would the introduction of labour-saving devices threaten misery and degradation to the men displaced. Such devices, by making the production of more goods and services possible, would also make possible the wider distribution of goods and services.

It is unfortunate that the attitude of many people towards non-industrial payments is coloured by antipathy to the idea that other people should get "something for nothing." So, what is essentially a technical problem is treated as a moral one, and argued by reference to an inappropriate scale of values.

But are National Dividends really "Something for Nothing?" If we pause to consider why industrial workers today are able to produce more than so many savages, we see that this is not due to their greater energy, but to their greater technical knowledge, skill, organisation and equipment—the mechanism of civilisation which, after all, is a communal inheritance. Machinery without a directing mind is of little use, and human energy cannot achieve much without tools; but machinery, mind and muscle in co-operation need also the background of the communal inheritance to render them fully effective.

What is produced does not, therefore, belong by right only to those who work to produce. Those who "work" make use of the common cultural inheritance, the accumulated skill and wisdom of the past, and their output is largely increased thereby. This *extra* output rightly belongs to the community as a whole.

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The provision to every person of a share of what is available is, therefore, a right and not charity. All members of the community are, simply as such, heirs to a splendid heritage, and no person or class has the right to claim a monopoly of the benefit. Even an invention is not entirely the inventor's own, for no man can do more than focus and mentally develop the ideas he has acquired from others.

The members of the community, as such, are therefore entitled, by right of inheritance, to a share in the produce of Industry, quite as much as labour or capital is entitled by virtue of work or ownership. Those who can claim wages or industrial dividends should, of course, receive in addition their national dividends. Those for whom Industry has no place should, in common justice, receive such portion of the available wealth of the community as is due to them as inheritors of the accumulated resources of the past.

(45)

* Web.

Some people will no doubt object that under such an arrangement no one will be found willing to "do the dirty work." Possibly they feel that, although beauty and culture flourish most among people who are happy and free, yet it is necessary to keep a number of other people less happy and less free, in order that they may serve the privileged. Economic freedom, they feel, must be limited in its application—for how else will it be possible to get services rendered?

Such an attitude of mind is not unnatural. The conditions under which people have worked in the past, the inferior status so often accorded to the domestic worker, and long hours of monotonous routine, have engendered in many people the feeling (not always openly expressed or even privately admitted) that work is a disagreeable matter to be avoided as far as possible. Nature endows people with creative instincts, and Science, which daily renders Industry more productive, could also render it more attractive. Under better conditions the idea of work can be replaced by the vision of creative play.

Of course, under such a proposal there will still be an incentive (as distinct from compulsion) to serve in factory or office, on the land or at home, for the remuneration received by the worker will enable him to afford a higher standard of living and comfort than the non-worker.

In addition, people willingly accept the ideal of Service when it is presented to them in circumstances that do not raise a suspicion of exploitation. In a land enjoying economic emancipation, the person who performs no service will be the nonentity, and service will gradually become recognised as the mark of the worth-while person. The general recognition of service as the inspiration of all worthy enterprise will go far to remove any reluctance to perform work which nowadays is regarded as menial. Thus there will arise a new and better aristocracy, founded upon the fundamental (but often disregarded) principle, that those who will be honoured among their fellow-men must also serve.

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It is a question of policy how to allocate between Price Discount and National Dividends the new money from time to time authorised by the National Credit Office. For many reasons it seems advisable that the whole of such new money should be used to reimburse retailers for selling at the Just Price. But in that case no part of such new money is available to finance National Dividends. It would seem that the only way to provide National Dividends would then be by the redistribution of money already in existence.

This conclusion also follows logically from a realisation that the individual members of the community have a right, by reason of their common cultural inheritance, to a share in *all* production and not only in increased production. If, then, individuals (just because they are members of the community) are entitled to share in all that is actually available, it follows that the payment of National Dividends must not be made to depend on an actual increase in the output of goods and services. This becomes abundantly clear when we look forward to the time when people will have attained such a standard of living that they regard an increase in leisure as more desirable than an increase in available goods and services. Quite clearly, even in those circumstances, the individuals making up the community will still be heirs to the common cultural inheritance, and still be entitled to receive their National Dividends, though in fact there is no continuing increase in the goods and services available, or even in the communal capacity to provide them.

National Dividends must, therefore, be distributed independently of any increase in the communal ability to deliver goods and services, and therefore independently of any increase in the amount of money. But, if that is a true view, it follows that the appropriate way to finance National Dividends is not by the creation of extra money for the purpose, but by the redistribution of existing money. The precise methods to be employed would involve political considerations, and so fall outside the scope of this work, but they may very well vary from country to country. The question is clearly one calling for further study.*

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We have previously remarked how the stress of circumstances sometimes compels Governments to adopt economic measures which cut across current financial theory. We noted this particularly in the war-time and post-war sale "under cost" of various essential goods—an arrangement bearing at least some relation to the Just Price of Social Credit. Possibly, also, rationing might be intelligently adapted to secure to every member of the community at least the necessities of life.

Rationing is, at present, an unpleasant reminder of scarcity and restriction. But even today, so far at least as essential goods are concerned, it should be quite possible for ration cards to represent not merely permission to buy goods, but also payment of at least part of the price. This would ensure that no person was deprived of his fair share of essential goods by reason of inability to pay for them. Such an arrangement would lower the cost of living, and so strike at the vicious spiral of rising prices and rising wages ; it would ensure the better distribution of the essentials of healthy diet. Though at present failing to meet the Social Credit demand for the greatest possible freedom of choice, the rationing arrangements, so adapted and extended, might be developed into a truly liberal system of National Dividends.

The question arises, of course, whether at the present time a complete system of National Dividends is a feasible or even a wholly desirable proposition. But without some system of "dividends for all" it will clearly be impossible to find for many people a solution of their material and psychological problems. Without some such arrangement, mankind will be unable to adjust himself to his new environment, with its tremendous possibilities of plenty, and its equally tremendous threat to human existence if such possibilities are not realised.

*It is recognised that to many Social Creditors the above conclusion is inacceptable and opposed to their preconceived understanding of the matter. But, if to the purchasing public there flows, through the Price Discount, the whole of the justifiable new buying power, this conclusion in no way departs from the basic principles of Social Credit.

CHAPTER 11

FINAL THOUGHTS

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When it was first shown how steam-power might be used to work machinery, the importance of this discovery lay in the demonstration of the possibility. Since that time, designers and mechanics have constructed and developed engines of various types, by means of which this discovery has been put to practical use. But we can be sure that Watt himself could hardly have foreseen and certainly could never have designed, the gigantic locomotives of today.

So it is with Social Credit. Social Credit, being something living, growing and adaptable, comprises more than just the economic ideas and proposals put forward thirty years ago by the Scottish engineer, Major C. H. Douglas. It must not, therefore, be assumed that all the ideas and suggestions contained in these chapters are those of Major Douglas. They do, however, originate in or are developments of the ideas which he first put forward.

In this connection it is, perhaps, well to remember that in the paper "*Social Credit,*" published under the chairmanship and direction of Major Douglas, the following words appeared more than once :—

> "Whatever mechanism, whatever technical processes may be needed to give expression to the desires of the individuals composing society, that is part of Social Credit . . . . if anyone can think of some better proposals for altering the present system so as to enable people to get what they are associating for—that will be Social Credit."

The chief point to be remembered is the need for an economic set-up which will (a) gear the purchasing-power of the public to the national ability to supply its needs, and (b) establish an adequate system of national dividends. Only so can men adapt their way of living to the demands and benefits of this power-age, and failure to contrive such an economic framework will plunge mankind into difficulties from which there will probably be no way out.

For we live in a period of transition, and, as in all such periods, a struggle is going on—a struggle to survive. This applies not only to the living creation, but also to ideas and institutions. The vital question of today is, whether or not men can accommodate their ideas and their institutions sufficiently quickly to the needs and the demands of this age of the power machine, and can take control over the conditions of life brought about by their increasing command over the forces of nature. The revolutionary discoveries (both physical and mental) of the past two centuries have made it impossible to return to the old ways. The " Good Old Days " are gone, and it is no part of our task to try and bring them back. But it is our duty to point forward to a far better way of life, and to show what adaptations are necessary to enable mankind to reach it.

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It may, perhaps, be feared that the adoption in one country of the principles previously outlined would prejudice its trade relations with other countries. There is no real reason why this should be so, although it is not unnatural for those who at present direct the World's financial destinies to foretell such a consequence.

What must be realised is that the application of Social Credit principles would only involve a scientific readjustment of the country's *internal* money mechanism. The British pound is not legal tender in America, nor the dollar in Great Britain. The fact that there generally are people in one country wishing to buy goods produced in another country has resulted in a system of money exchange being set up. By it (for instance) the Briton can obtain the American dollars he needs to buy American goods, while the Amercian can buy British goods with the British pounds he has received in exchange.

So far as international trading is concerned, the basis of the internal money system of a country is really immaterial, so long as the holders of its money tokens can be sure of obtaining goods for them. It is the goods-exchange-value of the money offered which chiefly interests the foreign trader. The theoretical basis of the money system does not greatly concern him.

The adoption of Social Credit principles in the money system of any one country need not depend upon their adoption by other countries. But it is not too much to expect that the country which first applies such principles will experience such industrial and social prosperity and happiness that before long other countries will follow its example. Even at the present time the United States could without any real difficulty apply Social Credit principles to its economy. With the agricultural and industrial restoration of other countries, these too could, with Social Credit, enjoy a higher standard of living at home. Thus there would disappear one of the chief causes of war. By enabling men to achieve a higher standard of living and of leisure, the adoption of Social Credit principles would tend to create peace at home and abroad—a real peace, in a world weary of War.

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The reader who issues the challenge: " How are you going to put your ideas across? " evidently assumes that he himself has no personal responsibility in the matter. Yet the answer lies with him. As soon as a sufficient number of people are enthusiastically convinced of the desirability, the practicability and the moral rightness of the Social Credit ideas, Social Credit becomes a matter of practical politics.

Unfortunately, it is more difficult to create a desire to abolish poverty and artificial restraints than to discover how poverty can be abolished. For it cannot be said that Social Credit, while offering so much in the way of freedom and security, demands no sacrifice from anyone. The introduction of Social Credit in a practical form will call for sacrifices, though hardly of a kind to be felt as such by a socially-minded person. It is no doubt a conscious or subconscious realisation of the sacrifice demanded that underlies the " moral " objections made by many people to Social Credit. For Social Credit demands a sacrifice from everyone who has any position of authority in the social structure—the possibility of losing his power over his fellow-men.

* * *

ENVOI

THE SOCIAL CREDIT MESSAGE

There have been great changes since the early 1920's, when the Social Credit doctrines, based on the acceptance of potential plenty, first stimulated men's thoughts and fired their enthusiasm. In those days the world's problems seemed remarkably simple, deriving from a single cause—a mathematically demonstrable flaw in the price system—and their solution appeared quite capable of being condensed into the framework of " Three Demands " : (1) Open the National Credit Office ; (2) Inaugurate the Just Price ; and (3) Distribute the National Dividend. " Would the maggot starve because the apple was too big? " men asked. But to-day many people deny that there can be enough for everybody in the present world, and feel that to talk about " poverty in the midst of plenty " is to betray an ostrich-like disregard of realities.

Another underlying assumption of the early Social Creditors was that every citizen could be made secure whilst leaving the "profit motive" to operate as the general impetus to production. Today that assumption is challenged, and it is indeed a serious question whether people in general have as yet developed sufficient social conscience to find in service to the community an incentive strong enough to overcome their "natural" disinclination to work. Every social order to date has depended ultimately upon inducing or compelling people to labour for their livelihood, on terms not necessarily designed or approved by them. This is true under Communism, Socialism and Capitalism, though the pressures are not the same under the three systems. Will not the sense of security and freedom of choice afforded by an adequate system of National Dividends remove the last inducement for people to put their shoulders to the wheel? In short, will not the National Dividend spell National Disaster?

And if the National Dividend proposal is challenged—what of the other specific Social Credit proposal, the Just Price? Here again we meet misgivings as to whether "an agreed percentage of turnover" would ever be accepted by private industry as the basis of a socially-determined price discount to consumers. The critic argues that no inducement in the form of an agreed profit on turnover will ever persuade manufacturers in general to submit to control over their production costs: that they—and the chain of intermediaries between manufacturer and retailer—would rather make more than "reasonable" profits at times, even if they incur losses at other times, than work on a steady socially-controlled basis of profit. And, if this is true, the case for the Just Price is badly shaken, for without some such agreement, the various organs of production would secure for themselves in higher prices a great deal of what was intended to benefit the consumer.

* * *

These challenges to our faith as Social Creditors are not mere debating-points, to be dismissed as such. They spring out of the riper reflections that follow upon our earlier enthusiastic acceptance. Such heart-searchings are genuine and must have their influence on Social Credit thought. We must think more deeply about our philosophy, our principles and our proposals, and found our faith on something more fundamental than the temporarily obvious. And, giving full weight to, but not overweighting these objections, we must determine whether or not the Social Credit message has any value at the present time and in present conditions.

Let us get back to first principles. Even the severest critics of Social Credit agree that the dislocation and distresses of modern industrialisation have followed more or less directly from the imperfections of the present money system, and particularly from a failure in the mechanism of distribution. But it is unfortunate that Social Credit is often regarded as only one of many schemes put forward for the improvement of an unsatisfactory money system. It is so very much more than that. Social Creditors have a vision of society which they believe to be not only attainable but also well worth the effort of attaining. But they also realise that the evil in our monetary system will not be rooted out except through an alteration of that system itself. And that is why Social Credit offers its own suggestion for a revision of our economic objectives and the reorganisation of our money mechanism.

* * *

Before passing on to other matters, I invite our critics to note—and note well—that, whether or not the specific proposals of the Just Price and the National Dividend as originally put forward are appropriate to-day, it is as important as ever it was to correct the fundamental flaw in our money system and obtain a proper balance in our economic and social structure. If there is to be a possibility of survival, we must so regulate our monetary arrangements that conflict is no longer the inevitable alternative to stagnation and under-consumption—and we must do this without increasing the burden of interest-bearing debt. In this Age of Power, it is necessary to reconstruct our machinery of distribution—our money system—so that a man's livelihood need no longer depend upon his finding paid employment, upon his direct or indirect participation in productive processes. To this end the proposals outlined in Chapter 8 could with advantage be introduced immediately.* And I would also invite our critics to note—equally well—that while on the one hand Social Creditors deplore the anti-social effects of financial monopoly in private hands they are, on the other hand, awake to the dangers arising from centralised power. Nationalisation of the banking system will serve little purpose if it merely means replacing the pyramid of power inherent in the private debt-system by another pyramid of power with State officials at the apex. For, as Douglas has so clearly pointed out in *Economic Democracy,* however sincerely those at the apex of the power-pyramid originally intend to serve the interest of the community,

*The reader is referred to Appendix B (page 55) for the draft of a Monetary Regulation Act prepared for presentation to Parliament as a Private Members' Bill.

they inevitably come to delight in power for its own sake and exercise it for the maintenance of their own supremacy. Nationalisation of the Banks—if unattended by a fundamental reorientation of method, aim and outlook—only makes more complete the subservience of the individual citizen to those who for the time being sit in the seats of centralised power.

At the root of the Social Credit philosophy lies its emphasis on the need for freedom of choice and expression. The aim of Social Credit is to encourage these in each person, accepting only such limitations as are necessary to preserve similar freedom in other people. The part played by the State in money matters should, therefore, be limited to providing and maintaining the money which, according to impartial calculation, is needed by the people. The State should not, in normal times, seek to control the individual in how he spends his money.

* * *

But it is not the monetary proposals of Social Credit so much as the philosophy underlying those proposals that we must consider here. The Social Creditor has his philosophy ; but when he looks round to find what hinders the general acceptance of that philosophy, he sees that the whole of our existing economic organisation puts a premium on just those things which he abhors—emphasis on " full employment " as an aim in itself rather than as a means to the full life : preparation for war and destruction rather than for the satisfaction of wants : the senseless hurry and bustle, the lack of repose and (particularly in international affairs) the brooding fear of his fellows colouring man's outlook : the pursuit of artificial excitements in an endeavour to forget for a moment the permanent worries of the age. All these, if not entirely due to, are at any rate stimulated by the economic system under which we live and move and have our being. Why bother to construct if we are indeed heading for final destruction ?

If man's ultimate objective is the fullest development of his spiritual, bodily, and mental powers, his nearer objective must be the creation of conditions in which it will be possible for him to realise his spiritual and fulfil his material aspirations. That, of course, is the objective of many forward-looking persons, who are not necessarily Social Creditors. Unhappily, there exist among the various reformist movements very different opinions as to the sort of society in which man's ultimate objective can best be achieved. It follows from what has been already said, that the aim of Social Creditors is the establishment of a genuine democracy—a society in which the importance of the individual is regarded as fundamental : in which organisations exist only to serve the needs of those who compose them : in which the freedom of the individual is only limited by the equal liberty and rights of others : in which the free self-discipline of a mature and educated population renders unnecessary the coercive and restrictive regulations which we are rapidly coming to regard as anormal circumstance of modern existence.

* * *

The social philosophy of genuine democracy is based on the sovereignty of the people, and implies their association and willing co-operation to attain their mutual aims and desires. It also requires the greatest practicable decentralisation of power. In a genuine democracy the State and its institutions exist to provide as much personal security as is possible with available resources while allowing as much personal freedom as is feasible within social life.

In contrast to this stands dictatorship or totalitarianism, a social system under which all power is effectively centralised in the hands of the people's rulers, who identify themselves with the State. Nazism and Fascism have risen and fallen. Communism is now the vigorous representative of this system. Totalitarianism in any form results in the manipulation of the many by those few in whom the will to personal power is most strongly developed. Such measure of social security as the people are allowed to enjoy must be paid for by their subservience to their rulers. Accordingly, the natural results of a totalitarian social system are the mental and economic slavery of the people, a continual struggle for power by the more venturesome, the suppression of independent initiative, ruthless regimentation, and the deliberate hindrance of all religion that does not recognise the supremacy of " the State."

And will our Socialist friends please note carefully that, so far, each of the main totalitarian systems has derived from Socialism? Nazism was National Socialism : Fascism was a development of Guild Socialism : Communism is a product of Marxian Socialism. Let them be ever on their guard lest the seeds of centralisation inherent in the Socialist philosophy germinate into over-regimentation, bureaucracy (however paternal), and finally dictatorship.

* * *

Probably the greatest anti-democratic force operating in the so-called " free democracies " at the present day is international finance, which, working both from within and from without, dominates the lives of entire nations. Those who, in the final resort, control the financial systems of the world have for long sought to centralise and thereby increase their own power. Their methods may change, but their aim is still there. Every policy is the product of a philosophy, and the philosophy giving rise to the policy pursued by our financial pundits is a totalitarian one.

So will those who advocate World Government, International Monetary Control, Federal Union—and even Western Union—pause to consider what interests are behind these seemingly innocuous proposals, and what dangers lurk therein ? If such proposals lead to totalitarianism, may not their benefits be bought at too high a price ?

* * *

To-day the growing stress and strife between and within nations has arisen in great part through conflict between these two antagonistic and irreconcilable social philosophies. And in any such conflict a genuine democracy is at a fundamental disadvantage. People in the mass take short views, and only occasionally can they be expected to act voluntarily in a way which does not conform with their immediate emotions, whims or desires. Under dictatorship a long-term view may occasionally obtain, but less often in a community in which peoples' expressed wishes are weighed by quantity and not by quality, and the votes of a numerical majority prevail.

Now, whatever views one holds about Communism and Communists, it cannot be gainsaid that the Communist faith engenders in its adherents an enthusiastic singleness of purpose, a missionary zeal, a strong sense of discipline and a spirit of self-sacrifice which those who oppose its teaching find hard to equal and impossible to surpass. And the spread of ideals (however mistaken) held with religious fervour by large numbers of people cannot be permanently prevented merely by force of arms. This course has been tried repeatedly, and has as repeatedly failed, throughout the sorry story of man's ideological intolerance. No : if the teaching of the Communists is not to inspire the hopes, ensnare the minds and capture the loyalty of many more millions of their frustrated fellowmen, those who believe in true democracy must show that they know how to combine a higher standard of life than Communism can ever hope to achieve with an individual freedom which it is impossible for Communism ever to attain.

In the growing conflict the social philosophy of Social Credit can be the determining factor. Certainly the present meanderings of the finance-frustrated "free Democracies" hold out no attraction sufficient to wean the Communist from his faith and his purpose. But Social Credit supplies point and direction. Social Credit offers true democracy, giving to each person the greatest practicable measure of command over his own destiny, through a scientific financial system conceived in the interests of consumers, but outside political control.

* * *

Such a state of society can never be established until there is a sufficiently wide demand for it, for freedom can never be imposed from above. An insistent and intelligent demand will only arise when people really appreciate the conception of Social Credit, and are ready to accept the responsibilities as well as the pleasures of freedom. We, therefore, who seek the establishment of true democracy, must strive even harder to inflame public opinion with this vision. We have, indeed, the message for our times.

APPENDIX A

FOOD

(a)

Is there indeed plenty in the world, or is there likely to be in a future that is not too remote for present consideration? Have we simply to make good the damage and dislocation of six years of war, or does the problem go deeper? Is there a possibility that with all our resources fully employed and with every technical assistance, the citizens of the world will still not be able to obtain a reasonable standard of existence?

There has perhaps been a too great readiness to point to the increasing industrialisation of the world as the answer to all doubts as to the supply of man's future requirements. But more and more clearly it is now being seen that although man cannot live by bread alone, it is the question of his food supply which is going in the long run to determine whether man will survive, and if so, in what numbers, and at what level.

In order, therefore, to reduce a complex question into one of at least arguable simplicity, we shall in this chapteras sume that the only material problem facing man is that of his food supply, and that mechanical advances and adaptations can ensure provision of his other needs.

(b)

Even before the War, when we talked somewhat glibly of our "poverty in the midst of plenty," that possibility of plenty for us depended very largely upon the receipt of foodstuffs and raw materials from countries where the standard of living was lamentably low. It was from India, China and Malaya (to name but three examples) that the richer countries of the West received wheat, rice, rubber and many of the other ingredients of their material prosperity.

The underfed peoples of China, India and South-East Asia are waking up to the fact that the higher living-standard of the Western Nations is often made possible only by the food and raw materials produced and sent to them by their hungry millions. These millions are now beginning to demand better conditions for themselves, and the reluctant West sees the red light of Communism as the alternative. Yet a higher standard of living for these people means that they will have less to export, for it is in a greater home consumption of their own grain and rice that they will first seek to satisfy their natural wants.

The growing industrialisation of the World may help to produce much that goes to make up a higher standard of living, but it also tends to decrease the supply of things which are equally fundamental to continuous well-being. Countries which become industrialised tend to produce less food-stuffs. The mechanisation of agriculture may open up new ground and result for the time being in larger areas being cultivated and that more quickly, but there is a body of responsible agricultural opinion which believes that the cultivation of the ground by mechanical means and its stimulation by artificial fertilisers reduces in time the yield per acre.

Drastic over-production of crops, regardless of the effect on the land, and wholesale deforestation have led to the gigantic dust-bowls of the United States and other grain areas. North Africa is now largely desert, and there are sand dunes where once flourished the cornfields that fed the imperial millions of Rome. The Gobi desert in Asia, covering its three hundred thousand square miles, appears from the deserted cities found there to have at one time been capable of supporting a large population. Even in Great Britain, the dust-storms in Lincolnshire may well be a warning against agricultural methods such as have rendered unfertile large areas in the United States.

There must also be taken into account the diversion of good arable land for such purposes as the provision of houses and the building of roads and aerodromes. It is so much easier to take good valley land, mostly flat and arable, than to take hilly moorland for such and similar purposes.

And, of course, with the growth of population an ever increasing supply of food is needed to maintain even the same standard of living. Can it be, then, that even under a perfect money system perfectly operated, with all barriers to production removed and every incentive present, the world as a whole must in future accept a lower standard of living—particularly the peoples of the West who, at the present time, enjoy a standard far above that of their Eastern brothers?

(*c*)

There is, however, another side to the picture. First, it is all to the good that the danger has been recognised, and that the wanton destruction of good land by haphazard cultivation is no longer taken for granted. Next, there are fortunately several examples of intelligent reclamation, of which the most famous is that of the Tennessee Valley, where millions of acres of derelict land have once again been made fertile. There are also the interesting but as yet unauthenticated experiments proceeding in Russia, where it is hoped by the systematic and scientific planting of trees to break the wind-storms and bring into cultivation many millions of acres now producing little or nothing.

Next, there is the increased knowledge of processes leading to higher productivity.

Again, although this may not appeal to many, there is a growing recognition that if mankind were content to rely more on a vegetable diet, a far higher general level of nutrition would be possible, since crops for human consumption make a much lighter claim than do animal products on acreage, labour and capital.

And lastly, human bodies can be disciplined by diet, so that they learn to utilise foods, and particularly fats, far better than previously. This fact may well have an important bearing on the question of any future world shortage of food.

(*d*)

So here we have some of the pros and cons. On the whole it would seem a safe prophesy that for a long time yet to come there need be no bulk shortage of food in the world if we are sufficiently careful to use our land properly, and do not disdain new forms of nourishment. As to these, the appearance and smell can no doubt be supplied in the laboratory to suit all tastes. But we must remember that food is not merely a question of bulk or of calories. It is also a question of vitamins, and perhaps more vitally of those trace elements which are to be found in vegetables which have not been processed or cooked beyond reason. And from the depths of a profound ignorance of the subject, one feels some doubt whether vitamins and trace elements are likely to be found in foods produced synthetically from the atmosphere or even by the enzyme process. Yet, whatever may be the true view as to the possibility of food in plenty, there is no doubt whatever that only under a properly adjusted economic system can we realise such plenty as is in fact possible.

APPENDIX B

MONETARY REGULATION BILL

Civilisation in this country is a product of steady growth, with occasional periods of more rapid change. A complete demolition and reconstruction from the bottom are foreign to our whole history. In this country we act by legislation and not by revolution.

Present financial arrangements make it necessary for all production-costs, of capital or consumer goods, to be recovered in the sale price of end-products. They do not, however, normally make available to would-be buyers of end products sufficient money to enable them to pay the prices represented by the cost of the whole industrial process. And so, many goods which might be made are not made, or if made are not bought, because people have not enough money to pay for them. The same is true of services. So it would seem advisable to provide means for calculating and overcoming the monetary deficiency.

In early 1949 the author, in collaboration with Mr. H. Norman Smith, M.P. drafted a Parliamentary Bill which, had Mr. Smith been fortunate in the Private Members' Ballot, would have been introduced into the House of Commons. Fortune was not favourable, but the draft Bill, which in a revised version is given below, indicates what it was hoped to do, and may prove useful if and when another such opportunity occurs.

The measures suggested follow very closely the recommendations contained in Chapter 8. The Bill sets up a National Credit Office, with wide statistical powers, and the duty of computing, in the manner prescribed, the amount of new money from time to time needed. The Bill also requires the Treasury to create and issue (or, if it is ever necessary, to withdraw) money in accordance with the findings of the National Credit Office.

The Bill provides for the issue of new money sufficient to defray only that portion of production costs which cannot be met from consumers' income. It seeks to ensure the automatic adjustment of the money supply in accordance with national need in such a way as to avoid new debt or inflation.

As a necessary corollary, the Bill limits the amount by which money may be created by the banking system in excess of the legal tender held by the Banks, and places on the Treasury sole responsibility for supplying the additional money from time to time required to enable the public to purchase all available goods and services.

It may well be that from the Social Credit viewpoint the proposed Bill leaves much to be desired. It must be remembered, however, that before a Private Member's Bill can be introduced, it has to conform to certain stringent conditions—and this applies particularly to a financial measure. It has also been necessary to draft the Bill in such a form that, if the opportunity arises to introduce the same, it will stand a reasonable chance of obtaining a second reading. It is to be hoped that opportunity to introduce this, or a similar measure, will not be long delayed.

* * *

A BILL TO

regulate the volume of money in the United Kingdom: to provide for financial assistance in the purchase at retail of certain essential commodities without burden to the Exchequer: and to make appropriate provisions relative thereto.

BE IT ENACTED by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal and Commons in this present Parliament assembled, and by the authority of the same, as follows :—

PART I

NATIONAL CREDIT BOARD

1. The Chancellor of the Exchequer (hereinafter called "the Minister") shall take such steps as appear to him from time to time to be necessary or expedient for the proper performance of the duties hereby assigned to him and to make all needful regulations to that end.
2. No recommendations or directions made or issued by the Treasury or by the Bank of England under the provisions of Sub-Clause (3) of Clause 4 of the Bank of England Act (1946) shall have effect if and in so far as such recommendations or directions contravene the provisions of this Act or any regulations made under this Act.
3. The Minister shall establish a National Money Board (hereinafter called "the Board") of which the duties shall be to collect and collate all information which the Minister shall direct with regard to the amount and value of industrial and agricultural production in the United Kingdom, of imports and exports, of financial requirements for capital

and defence production, and of actual and potential consumption, and also with regard to the amount and distribution of money and changes therein, and to all such other things as the Minister shall direct or as the Board shall deem expedient for the proper performance of its duties.

PART II

REGULATION OF BANK CREDIT

4. As from a date to be appointed by the Minister (which date shall be not later than one month after the date hereof) the Treasury shall assume responsibility for all forms of currency and the Bank of England shall transfer to a special Treasury account gold or approved securities of an amount equivalent to the existing Bank of England notes for which responsibility is assumed.

5. (1) As from the appointed date the amount of excess bank credit as defined in Clause 14 hereof shall not except as hereinafter provided vary by more than five per centum from the amount of excess bank credit existing at such date or at such earlier date as the Minister may prescribe.

(2) The Banks may at any time and from time to time with the consent of the Minister fix a lower figure as the normal amount of excess bank credit which thereafter shall not vary by more than five per centum from such lower figure: Provided that when a lower figure has been fixed for the normal amount of excess bank credit the Treasury shall forthwith issue or cause to be issued additional national money equivalent to the difference between the former figure of excess bank credit and such lower figure.

6. (1) All national money issued by the Treasury shall be in the form of currency and (save as aforesaid) no additional national money shall be issued nor shall any existing national money be withdrawn except upon the direction of the Minister given on the recommendation of the Board as provided in Clause 7 hereof or by authority of Parliament for such special purpose as shall be specified in such authority.

(2) It shall not be necessary for the Treasury or any agent of the Treasury to retain any gold or securities as cover for the whole or any part of the national money provided or caused to be provided by the Treasury under this Act but the value of such national money shall be sufficiently covered by the capacity of the community to deliver goods and services in exchange therefor.

PART III

MONETARY DEMAND EQUALISIATION FUND

7. (1) Not later than twelve calendar months after the appointed date and thereafter at intervals of not more than six months the Board shall report to the Minister its estimate of the increase or decrease in the amount of money within the United Kingdom which is necessary to equate the effective demand of the people of the United Kingdom for consumer goods during the following six months with their potential consumption during the said six months.

(2) In such estimate there shall be taken into account the effect on the existing amount of money of the issue of any additional national money under the authority of Parliament in accordance with sub-Clause (1) of Clause 6 hereof and of the operation of the provisions of sub-Clause (2) of Clause 8 hereof.

(3) If and when the Board shall report that an increase in the amount of national money is estimated to be necessary the Minister shall thereupon authorise and require the issue by the Treasury of such additional money.

(4) All money issued in accordance with the last preceding sub-Clause shall be paid into a Fund to be known as the Monetary Demand Equalisation Fund (hereinafter called "the Fund").

(5) All moneys paid into the Fund under the provisions of the last preceding sub-Clause shall be used and applied in such manner as the Minister may by regulation provide in payment of subsidies in reduction of the price of essential commodities by retail sale.

(6) As from a date to be specified by the Minister after consultation with the Board (being not more than five years after the appointed date) all regulations made by the Minister under the last preceding sub-Clause shall conform to the provisions of Part IV of this Act.

8. (1) The Treasury shall also pay or cause to be paid into the Fund any sum issued under sub-Clause (2) of Clause 3 hereof and any sum recovered through taxation during any financial year which is in excess of the budgetary expenditure during such year.

(2) Any moneys paid into the Fund under the provisions of the last preceding sub-Clause shall be used and applied in the redemption of National Debt securities in such manner as shall be provided by regulation.

9. Regulations to be made by the Minister may authorise or require payment out of the Fund of all expenses incurred by the Board and other expenses incurred in the administration of this Act and of the regulations made thereunder.

PART IV

SUBSIDISATION OF ESSENTIAL COMMODITIES

10. The Minister shall arrange for the registration of all such companies, firms or persons engaged in the manufacture, production, distribution or merchanting of essential commodities (other than foodstuffs) and in the merchanting of foodstuffs as shall voluntarily apply to be registered. The Minister shall prescribe the conditions to be accepted by such companies, firms or persons on registration. Such conditions shall include the periodical submission of accounts for inspection and may include the regulations of maximum profits in such a manner as the Minister shall direct.

Provided that any maximum profit permitted to any company firm or persons so registered shall be determined in relation to the turnover of such company, firm or person and not to capital employed.

11. As from the date specified by the Minister on the sale by retail of essential commodities produced or distributed by companies, firms or persons registered under Clause 10 hereof, the price to the purchaser shall be the financial cost of the manufacture, production or import and of the distribution or merchanting of such commodities (including a profit not exceeding the maximum profit, where such has been fixed) discounted by such percentage as shall from time to time be declared by the Minister after consultation with the Board. The amount of any such discount shall be remitted to the retailer out of the Fund not later than one calendar month after the date of the retailer's furnishing to the Minister proof of sale at the discounted price, such proof to be furnished in manner prescribed by the Minister.

12. The amount of the percentage discount to be refunded to retailers under Clause 11 hereof shall in the aggregate be sufficient to exhaust (taking one period of six months with another) any balance of moneys paid into the Fund after payment out of the Fund of any moneys payable under sub-Clause (2) of Clause 8 and under Clause 9 hereof.

13. If the balance of moneys in the Fund shall be insufficient to provide for discount at such minimum rates as the Minister shall consider to be essential to achieve the purpose of this Act, then the Minister shall require the Treasury to provide, and the Treasury shall provide out of the proceeds of taxation such additional sum as may be required to cover any deficiency. Any sum required to be paid into the Fund by the Treasury under sub-Clause (1) of Clause 8 hereof shall be reduced by any sum provided by the Treasury under this Clause.

PART V

SUPPLEMENTARY

14. In this Act except where the context otherwise requires

(*a*) "Bank credit" means and includes all liability on the part of the banks to meet the claims of depositors for payment of currency whether on demand or by notice.

(*b*) "the banks" means and includes all corporations, societies, partnerships and persons carrying on the business of banking, including the Bank of England.

(*c*) "currency" means and includes coins, notes and all forms of tangible money tokens.

(*d*) "effective demand" means the expressed desire of would-be consumers for goods and services backed by the offer of sufficient money.

(*e*) "essential commodities" means articles of consumption specified in the Schedule to this Act and such other commodities as may at any time hereafter be added by regulation.

(*f*) "excess bank credit" means the amount of bank credit in excess of the amount of national money actually held by the banks as cover.

(*g*) "merchanting" includes the sale of goods at retail.

(*h*) "money" means and includes currency and bank credit.

(*i*) "national money" means and includes all currency issued by the Treasury or for which the Treasury assumes liability.

(*j*) " potential consumption " means the aggregate volume of consumer goods which (given adequate effective demand) would with existing productive resources and after providing for necessary capital and defence production be made available for retail sale.

15. Any regulations made by the Minister hereunder may be revoked or varied by subsequent regulations made by him.

16. (1) The provisions of this Act shall not apply to Northern Ireland except as provided in the next following sub-Section.

(2) It is hereby declared that the Parliament of Northern Ireland has power to make laws for purposes similar to those of this Act.

17. This Act may be cited as The Monetary Regulation Act 1951.

SCHEDULE

ESSENTIAL COMMODITIES TO WHICH THE PROVISIONS OF THIS ACT APPLY

Group 1. Foodstuffs in respect of which subsidies are paid at the date of the passing of this Act.

Group 2. Such clothing, furnishings, furniture, cooking appliances, cutlery, etc., etc., for domestic or personal use as were exempt from Purchase Tax at the date of the passing of this Act.

Printed by
J. Ward & Co. The Prompt Printers
Church Street, Dewsbury