

# THE SOCIAL CREDITER

FOR POLITICAL AND ECONOMIC REALISM

Vol. 39. No. 24.

SATURDAY, MARCH 19, 1960.

Postage, 2d.

6d. Fortnightly.

## Hire Purchase

By JAMES GUTHRIE

What is hire-purchase, why is it expanding so rapidly and what is it trying to do? Why do the most industrially advanced countries use it most? What economic changes in the modern world have made hire-purchase necessary? Why do financial organisations devote so much time and energy to hire-purchase?

Discussions on hire-purchase, as with most discussions on money problems, unless they are rigidly tied to some physical basis, usually end in futilities. If money is considered as a commodity in itself then we discuss it *in vacuo*; but if it is looked upon as it really is, with no intrinsic value but merely a ticket allowing us to obtain access to goods and services, then two facts emerge: first, that money tickets are useless unless there are goods and services available to exchange for them, and secondly, that in the modern world production is useless unless people have sufficient tickets to obtain possession of the output.

In the modern world of economic activity there are two organisations operating side by side—the banking system which is really a rationing or governmental system issuing tickets at no cost to itself, and the industrial system which delivers goods and services. Mass production industry depends for its existence on the production and sale of vast quantities of goods, and naturally it does not want its customers to be rationed; but banks lose their chief power—the power to create debts—if they relax their system of money rationing. In order that two power groups following diverse policies may co-exist without mutual destruction a fantastic mechanism has to be introduced. That fantastic mechanism is the hire-purchase system.

Hire-purchase is a compromise; it allows industry, at least temporarily, to have more customers, and it allows the banks, by creating more debtors, to obtain more control over industry and over the customers. Before discussing this rationing system it becomes important to make quite sure that there are goods available for rationing. In official circles there is so much dishonest talk about money that anyone who has the temerity to break away from the usual financial clichés and to ask awkward questions is met with a wall of silence, or with the scorn of the official commentators. It is necessary therefore to know what are the revolutionary changes in the Industrial Arts which have compelled the banks heavily to back hire-purchase. I propose to look first at the vast changes that have occurred in our methods of production.

At the end of the 18th century, when Watt invented the steam engine, he provided the means of tapping gigantic reserves of coal and oil—the stored-up solar energy of millions of years—and of converting it into mechanical

energy. This vast supply of readily available energy, when applied to machines, was able to multiply the muscular power of man to any desired amount, and led to the greatest revolution of all times. In the 19th century, when Faraday discovered how to convert mechanical energy into electrical energy, he provided the key which opened the door to a brand new world where electric light took the place of tallow candles, and electric power was available to give service in the home as well as in the factory. After the 2nd World War, when the versatile electronic equipment which had been performing miracles in the armed forces was transferred to industry, the way was prepared for a new sphere of activity where complex tasks could now be performed without the aid of the human brain. This Third Industrial Revolution is only in its infancy; what the future will bring we cannot even guess, but the tempo is so hectic that most books on electronics are out of date before they are printed; few people can keep up to date even in a small section of the subject.

The Industrial Revolution caused such a violent change in the mode of life of civilised man that one is amazed at the complete lack of any rational comment on the fundamental, logical and inevitable economic consequences. It is impossible to believe that this almost complete intellectual blackout is due to lack of an appreciation of the natural consequences, or to the lack of the necessary information; one is driven to believe that the silence is a matter of high official policy aimed to keep the position obscure. This does not mean that we don't hear a great deal about the "vast expansion of industrial activity,"—we do. As to its purpose, all that is revealed to us is that this "vast industrial expansion" leads to more "vast industrial expansion" (usually called an expanding economy). We are also told a great deal about the "wonders of science," but where do they take us? What does it profit us if we have a future on the moon if we have no future here on earth?

It is time a responsible section of the community acquainted themselves with the purpose behind this industrial activity, and found out who benefits by it. Industrial expansion either serves a purpose or it does not. What is this purpose? When I laid a concrete path in our garden I made it for a definite reason. I did not like the look of it, I did not enjoy making it, and I did not make it for the good of my health; I made it in order to buy some time off from unnecessary tasks so that I could employ myself more congenially and more profitably. That path will never require to be weeded again. That is the way intelligent men organise their lives in the purely mundane sphere; if they don't so organise their lives then they are mentally deficient.

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This journal expresses and supports the policy of the Social Credit Secretariat, which is a non-party, non-class organisation neither connected with nor supporting any political party, Social Credit or otherwise.

**SUBSCRIPTION RATES:** Home and abroad, post free:  
One year 30/-; Six months 15/-; Three months 7s. 6d.  
**Offices—Business and Editorial:** 11, GARFIELD STREET, BELFAST.  
Telephone: Belfast 27810.

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### The Margins "Stampede"

From *The Canberra Times*, we republish the following letters; the first by Professor Arndt published February 13, 1960, and the second by Dr. Monahan published February 18, 1960:

Sir,—Your concern about the margins "stampede" will be widely shared, but it is difficult to accept your conclusion and the reasoning behind it.

You argue that the 28 per cent. increase awarded in the metal trades was made up, in about equal halves, of an increase to compensate for loss of purchasing power and an increase for increased productivity; and that "employees who have contributed no demonstrable increase in productivity" might well have been awarded a 14 per cent. rise for loss of purchasing power but "should not filch the fruits of productivity to which they have made an unmeasured, if any, contribution."

This seems to me entirely to misconceive the problem. The growth of productivity from year to year which makes possible a higher average real income and higher living standards in this country does not result, to any significant extent, from harder or better work by the average worker in the metal or other "productive" industries. It results from installation of more and better machinery and other equipment, from improvements in methods of production and distribution and in the organisation of industry, finance and administration, from shifts in the distribution of resources from less to more productive industries, from better education and health, from more sensible government economic policies.

The most equitable way of distributing the fruits (in terms of more and better goods and services) of all these improvements, to which all active members of the community contribute in varying degrees, might be to ensure that increases in productivity are passed on to consumers in the form of lower prices. If our institutional arrangements make this impracticable, the alternative is to ensure that all share in some measure in the benefits of economic progress through periodic increases in their money incomes. Your proposal that such increases in money incomes be confined to wage earners in "productive industries" would, for all time, peg the real incomes of all other employees and exclude them

from the benefits of economic progress.

It is highly desirable, therefore, that all wages and salaries be adjusted upward from time to time in step with the average rate of growth of productivity throughout the economy. On the other hand, it may well be argued that the cost of living adjustment principle (which you favour) is fundamentally wrong, except perhaps in relation to people earning little or no more than the basic wage.

There always has been a case for protecting the purchasing power of a minimum wage from erosion through rising prices. But this case is much less strong for people earning more. We know from experience that, applied to all employees, the technique of cost of living adjustment becomes ineffective. Such adjustment can never compensate employees for an initial rise in the cost of living because the adjustment itself causes a very nearly equal further rise. Now that the Australian economy is somewhat less exposed than it used to be to changes in domestic retail prices caused by fluctuations in prices overseas, it is safe to say that wage increases have become the chief cause of increases in the cost of living. If the principle of cost of living adjustment were entirely abandoned, the need for it would very largely disappear.

I would conclude, therefore, that—while we remain within the arbitration system—we should favour an annual combined review of the basic wage and margins, based on a broad interpretation of the capacity of the economy to pay, i.e., on the average growth of productivity throughout the economy (allowing for any discernible longer-term trend, but not for year-to-year fluctuations, in the terms of trade) but giving little or no weight to change in the cost of living.

H. W. ARNDT.

Canberra.

Sir,—It is not often that one can agree with the views of professional economists, but Professor Arndt deserves our thanks for his letter.

Modern productivity is the result of the application of energy to the conversion of materials to a form useful to consumers, and the energy represented by human labour is a small and rapidly decreasing fraction of the total, however important it may be as a catalyst. The major and increasing factor in production is represented by machinery and knowledge of technique and this is the legacy of many generations of inventors, engineers, technicians and workers—an inheritance to be shared by the whole contemporary community. If our institutional arrangements make this impracticable, it is quite time they were examined and modified. It is surprising how many of our current problems economic and social would be progressively ameliorated by a continuous increase in purchasing power through the progressive lowering of prices.

"L.E.R." is, surprisingly, guilty of a *non-sequitur* when he suggests that profits must be increasing because prices are not falling. The cost of a unit quantity of production is made up of labour costs, costs of raw materials, and costs allocated on account of depreciation and overhead charges generally. These latter are a steadily increasing component of costs,

and since prices are costs plus profit, prices will increase even if wages and profits are fixed.

As regards profits, "L.E.R." is apparently unaware that the short answer to the question as to why the chickens crossed the road is "profit motive." In any case, profits are a small part of the turnover of industry. The annual accounts of such representative companies as Dunlop, A.C.I., etc., show that something of the order of sixpence in the pound turnover is represented by dividends. Further, income tax on company profits, plus income tax on dividends distributed, absorb more than half total profits. And then there is payroll tax. With sales tax added, who can be surprised that prices are high?

If, because of an increase in wages, it costs more to install new machinery or replace old, and to produce "semi-manufactures," rising costs are being prepared for the future over and above the immediate higher costs of the present. These and other factors make our present wage-price system automatically inflationary, to the immense and entirely undeserved detriment of those on fixed incomes.

B. W. MONAHAN.

Deakin.

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**HIRE PURCHASE—** (continued from page 1)

But when it comes to modern industry, anyone who believes that labour-saving machines are for saving labour is looked upon as rather simple, as having a one-track mind, as one who likes to over-simplify a complex subject.

Homes have been provided with many wonderful electrical services, but at the same time many of them have been robbed of the personal service of the mother. Gadgets, however ingenious, do not constitute a home, and they are poor substitutes for the time, thought and care of a mother. Who would have foreseen that labour-saving gadgets would lead to mothers leaving their homes, their children and their gardens to become clock-punchers and clock-watchers? It is difficult to understand how the use of more labour-saving machines—that is, more machines for saving human labour—should make it necessary to drag more and more married women from their homes. Can it be that woman-power is cheaper than electrical power? (See Note 1).

Let us have a look at the cost of electricity. A one horse power electrical motor does the work of ten men, occupies the space of a man's hat, does not stop for meals or for sleep, and costs 5/- a week to feed (1957). Nobody is going to suggest that we can feed ten men or ten women for 5/- a week; the cost of physical labour, therefore, has got nothing to do with forcing married women to leave their homes. Can it be that women can perform intricate work faster than machines?

In the mass production of such things as motor cars, washing machines, and of clothing, nobody has had the temerity to press the button to allow the machinery of production to go full steam ahead for any length of time—the deluge would be devastating. We could not find space on this earth to collect the output of mass production factories. If the most complicated goods can be produced so readily, why then are married women dragged from their homes to give labour that is not required of their menfolk?

It may be suggested that in the advanced stage of an industrial society what is increasingly required is not so much goods as services, and that, although automatic devices can do many things, there are places where the personal services of human beings are required. That is my contention, and I consider that the place where personal service is most needed is in the home.

No matter how super-abundant is the supply of mass produced goods, except for purposes of war, the use of them is strictly rationed by means of tickets we call money; this means that those who do not possess the necessary ration tickets are not allowed to have access to goods or services. These tickets are issued according to certain rules—rules which obviously have no correspondence with the quantity of goods that come off the automatic machines. The question we should be asking ourselves is: Who is doing the rationing and for what purpose?

Any stranger who walked through a department store for the first time would see displayed something so fantastic that all he would be able to say about it would be: "It is not true." There, displayed in endless variety, are some of the products of our machines. Behind each article on the shelf there is a procession of similar articles waiting to take its place; if an article is not quickly removed from the shelf the whole procession is jammed right back to the factory, the production machinery is stopped, and the operators become unemployed.

The urgency to sell is not only a matter of profits, as we are so often reminded; it is much more far-reaching than that. (See Note 2). It is a matter of wages, or purchasing power, for men and their families. So, as you look longingly at a new model, you are approached courteously with, "Good morning, sir; would you like to take this model home?" "Yes, I would," you say, "but what do I use for money?" "Don't let that worry you," says the salesman, "you can take it home right now, and start paying when convenient. How does that sound?" "It sounds all right to me; it depends, of course, on when you want me to start paying." "When can you start?" "That is the trouble; I am tied up for the next ten years." "How about your wife; is she working?" "Yes, but she is tied up, too."

Much comment has been made about those people who mortgage their future to buy a house, furnish it, or buy a car, or all three; this brings us to a focal point in modern industrial society, and it is essential that we pause here and discuss this point at some length. No doubt much of the criticism levelled at those who overload themselves with time payments is legitimate; no doubt some people can only meet their weekly payments by cutting down their food and other essentials. We may deplore their foolishness, but that is their choice. *Amidst all this mass of criticism we look in vain for the reasons why the hire-purchase system should exist at all.*

I think it is only fair to remember that all the things that a modern family wants, and cannot buy, are dangled in front of their eyes from childhood; every known trick is used to stimulate their desires. Furthermore, they are told that if they don't buy, they and their friends will become unemployed—and this is one of the few official statements which has some basis in fact. If many people were to retain

their old radio set, their old motor car, if they were independent of mass entertainment, modern industry, under the present financial arrangements, would collapse leaving a large section of the population in penury. Here we have something so fundamentally wrong, so diabolically disruptive of any ordered existence, that we can say that a quick removal of the unnatural causes is one of the first essentials for our survival as a civilised people.

Yet, although mass consumption is essential for the maintenance of the ceaseless activity of mass production industry, the banking policy of rationing is opposed to its operation. It should be realised that the mere fact that our knowledge of industrial techniques for producing goods and services more abundantly without human labour is increasing does not mean that the money tickets to buy these goods automatically increases at the same time. The total purchasing power in the form of wages issued in any community depends largely on the number of individuals employed. In the press-button power station recently started in N.S.W. there is, presumably, nobody employed (except on occasional maintenance), therefore practically no purchasing power is to be distributed during the many years in which bills for electricity will have to be paid. What are people going to use for money?

*(To be continued).*

#### NOTE 1. ON MOTHERS IN INDUSTRY.

It is realised that mothers leave home for a variety of reasons; some to follow a vocation, others because they are bored and thwarted by their surroundings, or, as one working mother, probably speaking for the majority, said, because they want to help pay for necessities, such as the home itself, and to give the children an ample supply of such dietetic necessities as fruit, milk and butter.

#### NOTE 2. ON PROFITS.

If we assume that people who are able to pay cash do not use hire-purchase we can say that hire-purchase is used either because the community as a whole is not issued with sufficient purchasing power to buy its own production, or that there is sufficient purchasing power issued, but some people get too much and don't spend it so that others are not left with enough. As the latter alternative is a belief held by many people it is necessary to examine this further.

If it were possible for the tax-collector to prevent anyone receiving more than £3,000 per year (about £1,000 pre-war) by confiscating everything over that figure then, according to tax-returns for 1956-57, the extra taxes that might be collected would be about £130 million. This would make available for redistribution, if it could be collected, about 5/- per week per head of the population.

As most of the managerial staff in the government, semi-government and government protected monopolies are, as in Russia, in the higher income groups, the chances of collecting this 5/- per week are so remote as to be not worth discussing; but it is on the basis of the redistribution of income that some

people think that hire-purchase could be eliminated.

High prices and inflation are almost entirely due to government policy. There have been many bitter comments about the prices of motor cars and spare parts sold in Australia as compared with prices in Great Britain and U.S.A. When the Holden car was ready to go on the market the proposed retail price was fixed so low compared with that of other cars that the bureaucracy, realising there would be a serious reduction in sales tax, brought the necessary pressure to bear to have the price increased.

A large reduction in the price of cars would have meant a large reduction in the collections from customs duty on cars as well as from sales tax. A reasonably priced Australian car would mean that the Commonwealth government would stand to lose millions of pounds in revenue. It is wrong therefore to assume that the government is interested in reducing prices or preventing inflation. The leaders of the bureaucracy are all pressing hard for increased taxes.

The profits made by private enterprise, when distributed in the form of dividends to shareholders, become the income of individuals and these we have discussed. The complaint made by shareholders, especially those on small incomes, is that too large a proportion of the profits is not being distributed to individuals but is being "ploughed back" into industry. This method of reinvestment not only reduces the purchasing power of the community but produces new capital charges without supplying any means of liquidating them.

The Commonwealth government has been extracting taxes from the people over and above its requirements and has been using the surplus to finance capital construction; in particular it has been used for the expansion of the P.M.G.'s Department. Somebody discovered that according to "correct" accountancy the cost of this capital construction should go into the costs of postage and accordingly the postal charges were increased 25%. In this way not only was the tax-payer asked to pay interest on his own money but he was asked to pay again for the whole of the capital already taken from him. In other words he is to be charged twice for the same service. This double charge for capital is obvious enough here, *but it also takes place whenever capital goods are included in cost no matter how financed, and this important fact explains continuous price inflation.* This is further discussed under notes on "Shortage of Purchasing Power."

### The Inflation Racket

Prices Current in Chester in 1740:—

Beef and mutton, 2d. per lb; pork, 1½d. per lb.; tobacco, 10d. per lb.; beer, 3/6 per half barrel. The rise in prices very roughly parallels the increase in the National Debt minus improvement in process, and dates from the foundation of the Bank of "England." It has operated to defeat all improvement of process, and invention, resulting in forced exports and war. The mechanism is simply the price "system" of charging the highest the public will pay, and issuing new money as loans, thus reimbursing the financial institutions for taxation and higher costs.