

THE SOCIAL CREDITER

FOR POLITICAL AND ECONOMIC REALISM

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Vol. 59 No. 1

JANUARY-FEBRUARY, 1980

The Crime and the Cure

I

The signs are all around us of the collapse of our civilisation. What was forecast by the late C.H. Douglas more than fifty years ago, today is visible in the streets — and even more so on the TV screens and in the Press photos. War has been continuous since 1946. Famine and disaster and genocide have multiplied in the wake of the destruction of 'colonialism'. Crime, violence, immorality and drug addiction are endemic. Poverty, the complement of unemployment, spreads like an oil slick, and strikes accelerate social disintegration..

"Why", asked Douglas in 1945, "is it becoming *more* difficult to bring peace upon earth, and to make effective, goodwill between men? What is the dynamism which will encourage the conquest of the earth, the air, and the sea, but will only permit the substitution of poverty by slavery? Why does the mouthing of the phrase 'the common good' merely ensue in individual evil? "...What is it which is strong enough to plunge the world into a cataclysm of destruction at decreasing intervals, against 'the common will'?"

II

Perhaps a short answer to this question is contained in the expression "political economy". This term, sounding scientific, is a blanket concealing the crimes against civilisation under the headings "politics" and "economics". Now *policy* is the choice of an objective; and so far as society is concerned, there are but two choices — the emancipation of individuals from the Curse of Adam, or the collectivisation of mankind on a global scale into the simulacrum of a bee-hive. And this latter is the policy which afflicts us.

Thus *policy* has become corrupted to politics, and politics has become quite brazenly the pursuit of power. Government "power" means power over people. The reporting of election contests more and more resembles the reporting of prize-fights, while the party-politicians in their arenas are like starved animals fighting in a cage.

The word "economy" derives from the Greek word *oikonomos*, meaning household management — *not* the total government of a collectivised community of robots. Yet expanding, enveloping governance, disguised as "better economic management", but in fact government by the endless issuing of Regulations spawned by Enabling Acts of Parliament, continuously moulds the individual into a unit of the mob. "Thou shalt not..." Penalty for disobeying Regulations....

III

What is "the economy"?

As seen by officially qualified "economists" it is an ill-defined abstract entity, largely concerned with the manipulation of

finance, and the battle-ground of contentious theories. But these theories proceed from two apparent axioms: That money is a commodity having inherent "value"; and that the objective of the "economic system" is to provide human employment.

The first axiom is false. The second is the tenet of a philosophy rooted in Old Testament Puritanism. As Douglas put it, the economic system is regarded "as a moral discipline intended to keep Satan from providing idle hands with mischief"

As regards money: Money has for all practical purposes ceased to have any inherent value — that is, value in the sense that gold and other rare metals, minerals and jewels have value — a value related to the effort of finding them and bringing them into use. But these are no longer used as money in the ordinary sense. This ordinary sense includes coins stamped out of cheap metals — in Australia about 0.1 of one per cent. of the total volume of money —; printed paper notes — 9 per cent; and the rest — nothing but figures in books.

The officially recognised economists — those employed as such, many in positions of considerable importance and prestige — must know this fact about money. They also must know that by far the greater part of the 'volume' of money is created by banks. For "every bank loan *creates* a deposit in that or another bank, and the repayment of a loan destroys a deposit". This process is described in an article in the *Bank of New South Wales Review*; October 1978. It is this fact of money creation and destruction which makes it possible to vary the volume of money — the supply of money increases when the rate of issue of new loans exceeds the rate of repayment of old loans. The increase in cash (notes and coins) which accompanies this expansion of credit merely reflects the need for facilitating the increased flow of circulating credit, much as more wheels are required to support an elongated carriage. The *ratio* of cash to the total volume of money is practically constant, except in the Christmas shopping season when small change is needed for accelerated gift-buying (i.e., relatively numerous small purchases).

There can be no doubt that the banking system is indispensable in an industrialised society. So where is the nigger in the wood-pile?

The catch is that while banks create money "out of nothing", they claim it as their property — and enforce the claim by mortgaging *real* property as security. If the loan is repaid, the 'money' vanishes; if it is not repaid, the bank owns the real property. And in the same way, banks can acquire real property merely by honouing cheques drawn against themselves. They pay the builders to build their (palatial) premises, and show the 'value' of the building as an asset in their accounts — a mere matter of book-keeping. In principle this is no different from what a counterfeiter does until he is caught. But the bank is protected by law from apprehension as a thief — and by lack of public understanding of what the banks are actually doing which, in the last

resort, is laying claim to almost the whole of the real assets of the community. This is demonstrated in principle whenever there is a credit "squeeze", when bankruptcies rise and real assets are acquired at a fraction of their value. This happened to an extent amounting to a tragedy in the Great Depression of 1929. But the current increase in the number of bankruptcies under a "tight" monetary policy is evidence enough.

Another, and correct, way to view this matter is to recognise that credit creation amounts to a licence to allow the community to operate its production system. Cut off the supply of credit, and the industrial system comes to a halt. And the community in this sense includes its nominal Government. For reasons which would take us too far afield to explore, overall balanced budgets are an impossibility in developed industrialised societies — a fact which can be confirmed by observation. Deficit finance provided by the banking system is thus a licence to continue in government.

IV

Well then, is a 'science' of economics possible at all? And the answer is yes — if it is founded on ascertained *physical* facts. Money, in the proper sense, is not a physical fact; it is mostly book-keeping.

The first of the physical facts — first in time, and first in importance — is that mankind, and indeed the whole of animal and vegetable life, has existed for all its millions of years on what Nature has provided. Leaving aside any metaphysical considerations, the prerequisites of life were, and remain, a supply of certain chemical elements, a supply of free energy (the sun), and protection from adverse changes in the environment.

It is, however, necessary to touch on the metaphysical. We are confronted first with the fact of evolution. In the light of accumulated knowledge, we can analyse ourselves back via chemistry and physics to molecules and atoms. But: "The tendency to argue from the particular to the general is a special instance of the sequence from materialism to collectivism. If the universe is reduced to molecules, ultimately we can dispense with a catalogue and a dictionary; all things are the same thing, and all words are just sounds — molecules in motion. That is the ultimate meaning of 'Equality' — having no quality. (C.H. Douglas: *The Brief For the Prosecution*.)

Now nobody would seriously contend that we could dispense with catalogues or dictionaries. They came into being because mankind had need of them.

We think of man-kind's history as beginning with the Stone Age — the conscious use of tools in the War against Want. Even so, this process was so slow in development that for more than five million years no man in his lifetime would have been aware of any change. It is only thanks to the work of modern archaeologists that today in retrospect we can detect what change there was. About two million years ago there was what to us is evidence of the *making* of tools as a step from merely using things *found* as tools. Half a million years ago fire was used, and instruments were *made* for the hunting of large animals.

As the time span shortened, as measured from our period — when millions of years became hundreds of thousands...tens of thousands...thousands — the evidence of change became more apparent. And in the last two to three hundred years it became evident in a man's own lifetime. Today, in this century, change is perceptible sometimes in months.

All this is important because change is evidence of *force*. One aspect of force is the direction of its action; and in economic activity, the direction is towards labour-saving. As the time-scale reveals, change accelerates.

existence of "the unearned increment of association". This amounts to a law in the sense of physics, and as such may be stated: "Two or more individuals acting together can accomplish an objective which a single individual could not." An elementary example is lifting a heavy log clear of the ground. It is important to note that such lifting entails an expenditure of energy, which is proportional to the weight lifted and the height above ground. This gives a unit by which energy may be quantified — "foot — pounds per minute" — and measures the energy consumed — the "earned" component of the accomplishment. The unearned component is not quantifiable, nor constant. This is because it is a combination of variables — number of individuals in association, degree of organisation of effort, psychological factors, improvement in procedure, variations in environment. But in general, the unearned component increases with time, and the rate of increase accelerates. Thus one telephone is useless; two useful; an exchange with a million telephones a marvel.

Beyond the fundamental and general realities serving as a foundation for a science of economics, more pragmatic and contemporary realities must be taken into account. The more important of these are:

- The capacity for primary production (agriculture etc.) of a given (say national) area. In most such areas this is now very much greater than that which sustained mankind for millions of years.
- The availability of raw materials for immediate use or suitable for conversion to a more useful form.
- The quantity of energy available or accessible.
- The ratio of fuel — or solar-derived energy to human energy (as muscular power).
- Efficiency and economy of process.
- Determination of exchange-value of units of production in absolute terms — for example, how many motor-cycles of a given type are equivalent to one motor-car of a given type: that is to say, establish a ratio which can be expressed as a number. Thus circles may be of various areas, but the ratio of the diameter to the circumference is a constant.
- Efficient distribution of product.

The objective of the economic system (and, therefore, of the financial system) should be defined as the fulfilment of the whole of the community's demands from the bottom up — i.e., *first*, the provision of adequate food, clothing and homes for all (e.g., houses before offices, etc., instead of building the latter to 'create' employment to enable people to purchase houses); second, to meet more complex demands in accordance with industrial and technological developments.

It will be noted that money does not, and does not need to, enter into a basic conception of economics, except as a psychological factor affecting the unearned increment. A financial system should derive from the economic system as outlined. At present the economic system is subordinated to financial considerations, which in turn derive from the Will to Power of the few over the many.

V

Physics, chemistry, astronomy and mathematics are considered to be basic or natural sciences. Is engineering a basic science? In the strict sense, it is not. But it is *scientific* in the sense that it applies the laws discovered by the natural sciences for the purposes of construction, and the Institute of Civil Engineers defined

The second fundamental fact for a science of economics is the

the *profession* of engineering as the application of the forces of nature to the uses of man.

Similarly, the *profession* of economics should be defined as the efficient distribution of the product of the resources, both natural and manufactured or processed, of the community in accordance with the requirements of the members of that community as revealed by their purchases. The *consumer* choice of consumer production should determine the overall programme of production. At present the individual produces armaments which may blast him into eternity, because his remuneration for arms-production is necessary to meet his increasing cost of living.

It is at this point that a fundamental misunderstanding has arisen — and, much worse, been exploited. The community for the time being, generation replacing generation as a river flows, is the beneficial owner of the country's resources as defined, just as the son is the natural heir of the father. The family is continuous through the passage of time.

But all of those resources cannot be *distributed*. Certainly naturally occurring resources such as air, water, many food-stuffs and some primitive forms of clothing, are already distributed and available in principle to all. In prehistoric times they were all that were available, and for the majority of animals, remain so. Where resources have to be processed it is possible to distribute the simpler means of processing more or less widely — as, for example, for grinding corn, spinning and weaving fibre, fabricating pottery. On the other hand the *means* for the manufacture of complex production (in general, factories etc.) cannot be distributed. But as the primary objective of such production is the satisfaction of consumer needs with a minimum of bother to the consumer, all the consumer needs is a share-holding in the production system as a whole, entitling him to a dividend enabling him to purchase his chosen share of ultimate production. He is not concerned with intermediate production in multi-stage production. He wants the motor-car, not the metal pressing-plant.

The misunderstanding referred to is that production should be 'nationalised', which means expropriating the nominal owners, and substituting centralised bureaucratic control of production according to someone's idea of what it is good for the consumer to get. Experience since the Bolshevik and subsequent revolutions has demonstrated that this simply results in "guns before butter", though of course the government gets the guns and "the people" get rations. As things have turned out, they would probably prefer it the other way round, at least for the time being.

Taking the profession of economics as defined in para. 2 of this section, how do we determine the entitlement of the shareholders?

Using Douglas's words "The economic fact from which all technical arguments of a constructive nature must proceed, is that the world has passed out of a condition of economic scarcity into one of economic abundance, a condition which, *except by wilful misuse*, is not only permanent, but cumulative. The struggle for existence, in the economic sense, has been decided by a decisive victory over its traditional enemy — Want". (Emphasis added. The Article from which the extract was taken was published in 1933. The war and its aftermath demonstrate *criminally wilful misuse*, with probably worse to come if events in S.E. Asia and Africa are the indication they seem to be.)*

* A report in the London *Daily Telegraph* (29 Sept. 1979) reveals that about 20,000 tonnes of British butter was exported at subsidised prices to Russia, and that 67 thousand tonnes of EEC butter went to Russia in the first half of this year. "On each tonne there is an export subsidy of £1,140, so the total cost to EEC tax-payers so far this year is about £95 million....

"The Common Market butter 'mountain' now totals over 340,000 tonnes, and there are also nearly 240,000 tonnes on which the Commission is paying private storage subsidies to keep it off the market....

"Ironically, only the very best produce goes into the EEC food 'mountains'."

Well, that's one way of "managing the economy"

Australia is a largely self-sufficient country with which to illustrate the fact of economic abundance. Other economic areas would serve, with changes in statistics — the United States and Canada particularly.

Primary Production Capacity: Australia has a gross surplus capacity, and actual consumption is less than production.

Availability of Raw Materials: Excess capacity in most; excess conversion capacity, rapidly increasing.

Energy: Electricity production (measured by consumption) was 82,352 Million kWh in 1976-77 — an increase of 7.5 per cent. on previous year. Further capacity is being installed.

Very large reserves of coal. Much coal is converted to electricity. United States (of America) figures for *total* energy consumption is given as about 20 million million kWh, of which electricity represents about 8.5 per cent. So it seems reasonable to say that Australia's energy consumption is very considerably more than that represented by electricity.

Human Energy (as muscular power): About 42 per cent. of the total population is employed. Of these, about 55 per cent. are engaged in productive activities (23 per cent. of the total population). Of these latter, about 7 per cent. are engaged in agriculture (including forestry); about 23 per cent. of the work-force are engaged in manufacturing — 8 per cent. in construction, 2 per cent. in gas and electricity, 5 per cent. in transport and storage, and 10 per cent. in community services. Relative to these, other occupations, although of varying importance (from desirable to undesirable), are non-productive. They share in, and have varying claims on "the cake", but do not produce it. Quite a significant proportion — particularly those engaged in finance (including insurance) and legal and administrative work, are engaged only in making and filing records, which largely derive from the unnecessary complexities of the financial system, and particularly the taxation system. Thus all employment is by no means of equal utility, and "making work" reduces the efficiency of increasingly automated industry.

Oil Products and Natural Gas: Australia is a net importer of oil, which is indispensable to modern productivity. But as coal is indispensable to other countries who must be net importers, an exchange of coal or other surplus materials for oil is economically sound. Here it should be noted that a continuous net surplus of exports over imports is economically unsound, being a loss of real commodities in exchange for money which is not a real commodity. It is not physically necessary for a country to import money, which in any case has to be converted into its own currency, to buy its *own* commodities — i.e., what remains after exports.

The consumption of petrol is undoubtedly too great, a very considerable proportion being consumed in transporting people to "work" of a non-productive or counter-productive nature. One needs only to observe the traffic congestion in capital cities to visualise this.

Taking all employment as work, it produced in Australia in 1976-77 a gross household income of \$69,334 million for about 12 thousand million hours of work. One horse-power of work has been taken as equivalent to ten man-hours (with automation and computer control it is probably worth a good deal more now). One horse power is equivalent to 1.34 kWh of electricity, so electricity consumed in Australia in 76/77 was equivalent to about one million million man-hours of work — about ninety times greater than manual labour in 76/77. Valuing the electricity at a 'wage' of \$3 per hour gives an equivalent income of about \$825,000 per household. If other forms of energy are taken into account, the income would be more than doubled again.

This enormous discrepancy is accounted for in two main ways.

First, total production consists of consumable articles, which are what people buy, and capital goods, which they do not. These include factories, machines, office buildings, public buildings, public works, defence equipment, and research and development. Now it is obvious that an average family income of about \$17,000* per year will not produce more than a reasonably comfortable average standard of living. But inequality of incomes means a relatively luxurious standard for some, a middle group who get along well enough, while wanting more of what they can see is available in the shops; and, near or below poverty for those at the bottom — though not for the reason that the *goods* are not there.

So the position is that the community, year after year, produces much more than it consumes. But the matter does not end there. Capital goods accumulate; cost-of-living items, relatively, do not. Food is consumed daily, children's clothing is outgrown in months, adult's clothes in perhaps a year or two on average. House-maintenance (if you own a house) is a continuing cost, and rent has to be paid if you do not own the house. Consumer durables have a variable life, but maintenance and repairs have to be paid for on their account.

On the other hand, accumulating capital goods have a life of something of the order of twenty years on average. But they do wear out, or become obsolete because of technological advances. Against this wearing-out or obsolescence a charge is made, and in multi-stage production this charge accumulates from process to process, until it appears as part of the cost of consumers' goods and, together with profits, forms the *price* to the consumer. It is also the case that the cost of the wages and salaries and profits of the earlier stages of the production appears as part (a large part) of the price to the consumer, so that a rise in wages must result in a rise in prices. But the wages and salaries which go into prices were spent on the current cost of living anything from days to months (possibly) after they were distributed, and so are not *current* purchasing-power.

There can be no argument about this situation. The factual evidence is before our eyes. Shops and stores are bulging with goods, and advertising is frantic. Manufacturing *capacity* is there — it is not fully drawn on because the monetary demand is not there. The only hope for a resurgence in employment as things stand is to produce more of what the consumer does not want to provide the money to buy what he does want, and which is already there waiting for him.

But no: The economists and the politicians tell us there is too much money and it is causing inflation, so they close off hospital facilities, but build new Parliament Houses and other monuments to a proliferating and obstructive bureaucracy. Live-stock is shot and grain left to rot if we cannot sell it to Russia and China — while if we do sell it, the price of bread and meat in our shops rises. The shortest way of describing the current economic situation is to say that it is not giving satisfaction to the community, is getting worse, and provides the grounds for industrial unrest amounting to disruption of orderly community life; underlies mounting crime and violence; and erodes community morale as is manifest in drug addiction, crime, promiscuity and gambling — the collapse of a civilisation; not for the first time, but perhaps for the last. (To be continued)

* Arrived at by dividing total household income (69,334 million) by population (14 million) and multiplying the result by the average family of 3.5 persons.

The *Social Crediter* expresses and supports the policy of the Social Credit Secretariat which was founded in 1933 by Clifford Hugh Douglas.

The Social Credit Secretariat is a non-party, non-class organisation neither connected with nor supporting any political party, Social Credit or otherwise.

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Social Discredit in New Zealand

It appears from correspondence we have seen that considerable confusion exists in New Zealand concerning the basic concepts of Social Credit. Dr. Ivan Harper was invited to submit a letter to the Editor of *The Social Crediter* on which necessary comments could be made.

His letter with our comments follow:

Sir,

Douglas' condensed style of writing and his technique of using mathematical equivalents to make his point have resulted in a proliferation of false interpretations of his A plus B theorem as outlined in *The Monopoly of Credit*. False interpretations include: *all* costs of production are not available as income: bank interest is the sole cause of the 'gap': industrial depreciation charges are the cause of the 'gap': nearly all savings are the cause of the 'gap': an excess of overseas expenditure over overseas income is the only cause of the 'gap': retailers' profits are a cause of the 'gap'. If any of these were true, then common sense would indicate that not all can be true.

The Monopoly of Credit makes it abundantly clear there is one and one only fault in the money system. This fault is that all money is created as a repayable debt to the banking system. There are two consequences to this:

1. Repayment of bank debt by one area of industry creates a cost in production price for which no income is generated. Relending of the bank credit in another area of industry provides the financial mechanism for distributing goods in that area of industry. Such credit cannot at one time provide incomes to distribute goods in both areas.

2. Repayment of bank debt is usually achieved by raising prices. Increased prices in one area of production will cause increased costs for other areas of production. Other areas of production will therefore need to borrow more bank credit for unchanged requirements. In other words, repayment of bank debt is a prime or initiating, cause of the inflation endemic in Western Society.

Social Credit theory in any country should be based on these fundamental and unified ideas.

Yours with respect,

Ivan Harper.

PALMERSTON,
OTAGO,
NEW ZEALAND.

It appears to be necessary to state categorically that Dr. Harper, and apparently his correspondents, grossly misconceive the operation of the monetary system.

The A+B theorem is a statement of fact, and as such is not subject to interpretation. It is important to note that it refers to the *rates* of flow of incomes and costs, and these can be evaluated from statistical data.

Dr. Harper's statement that "all money is created as a repayable debt to the banking system" is not part of the A+B theorem, and is not true as it stands. Nor is it true that "repayment of bank debt ... creates a cost in production price". Costs are generated by industry. Repayment of bank credits is deflationary. The provision of bank credit to finance future production is inflationary since it dilutes the purchasing power available for goods already on the market.