SOCIAL CREDIT AND ECONOMICS

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INTRODUCTION

The quote, "Render unto Caesar the things that are Caesar's, and to God the things that are God's"[1], is applicable in other circumstances. It can also be applied to the partition between Social Credit and the subject of Economics.

It is unfortunate that there has not been a coming together of minds in the search for and the application of truth, in the administration of the affairs of individuals combined into a society.

For decades there has been an attempt to treat with disdain the truths advocated by C. H. Douglas and others relating to the realities that govern our daily lives. There are obvious reasons for this and these are dealt with elsewhere[2] We offer here a glimpse of some of those divisions with the expectation that bringing these into the light some advancement may be made towards a better understanding by all those involved and not disinterested.

CONFLICT BETWEEN THEORY AND REALITY

The constant conflict between economics and that part of Social Credit that deals with policy aspects arises from a perceived difference in the manner in which the economies of the world function. The case for Social Credit has been stated without the necessity to change every few years, unlike the teachings of economics. For some unknown reason, although some speculation can be entered into as to why economists every now and then produce a paper or article attacking Social Credit. Needless to say they are never correct simply because they base their arguments on a false understanding and misinterpretation of Social Credit.

To add to their confusion economists use their own jargon and terminology as well as their own theoretical assumptions that have little in common with the realities expressed through official Social Credit literature. The conflict is between theory and reality.

A study of economics will show that the subject takes certain basic factors in operation in an economy and then proceeds to explain these according to a set of principles on which a policy may be determined. There are some economists who will make the claim that it is a science because they adopt the methods of inductive and deductive reasoning to achieve their conclusions. Unfortunately, many of the premises on which their investigations are based are, themselves, subject to question. This would not be denied by economists who recognise that, "economic theory is full of 'unrealistic' assumptions. It has to be, for the simple reason that economic reality is extremely complex".[3]

"The method used by economists is not to try to make a complete list of the things that influence consumer spending. Instead, it is to try to identify the factors that have the greatest influence and to use them as the basis for a theory.[4] In economics, as in other fields, a *theory* is an explanation of how facts are related. A mathematical or graphic rendition of an economic theory is called a model".[5]

Social Credit, on the other hand does not allow for human application in determining the basics. It is the natural phenomena itself that governs both the philosophy and policy of Social Credit. In other words it is based upon reality in the world, as we know it to function. Social Credit is not concerned with what *ought* to be. Such considerations form the basis of policy determinations advocated by economists. Social Credit policy considers what *is,* as a result of economic and political activity. The economist may concern himself with what effect a tax cut will have on the total spending of consumers. Social Credit is not into forecasting such activities but rather would question the necessity for taxation itself. Irrespective of this consideration a Social Crediter would be more interested as to what effect occurred as a result of a tax cut or a tax increase *after the event occurred*. The adoption of such an approach is based on the facts and realities of natural law, because Social Credit is a science in the true manner being based upon observation, inductive and deductive reasoning.

In the following pages it is hoped that some distinction can be drawn between both views and the reader can establish the validity of either argument.

References

1. *Mark 12. 17, King James Bible*

2. See Publication *A$ + B$ And All That,* Social Credit School of Studies – 2001.

3. *Economics (Fourth Edition)* – Edwin G. Dolan, The Dryden Press, 1980, 1977. P.13

4. A Theory is broadly a hypothesis, or assumption; a speculation, whereas a Theorem is a proven proposition.

5. *Ibid.*, p.13

AN ABSTRACT ON ECONOMIC PHILOSOPHY & POLICY FROM A SOCIAL CREDIT PERSPECTIVE

Distinction between Reality and Ideological Philosophy

Philosophy in the sense as used here has to do with the study of knowledge that deals with that reality which is part of the ultimate reality. It is also a study of natural objects and phenomena. We are dealing with the real as opposed to the ideal. It has been said that the ideal is the enemy of the real and it is important to recognise the physical realities, which affect the Social Credit, and that part of the cultural heritage, the nurtural heritage or knowledge that has been obtained and passed down through the centuries. Our real world is comprised of two parts. One involves the physical elements in nature which are without exception, always in association with each other, and the second involves the knowledge of how we utilise those elements which exist in nature. Philosophy itself is defined as the love of wisdom. Here we are looking at a study in a purely scientific sense to establish knowledge of general causes and principles as they interrelate and how the knowledge gained may be used to our advantage.

The subject of philosophy was the commencement of all our known science, such as mathematics, astronomy, physics, chemistry, biology, psychology and so on. Social Credit may be regarded not only as a science, but an exact science. From the very beginning of recorded history of philosophy, man has attempted to explain why things are as they are and how they relate to their individual experience. The realisation that man has developed over the centuries methods of associating with man to achieve certain results, but has been denied the benefits of that association, results in the necessity to enquire into the reasons why.

Any economic system requires a set of rules, an ideology to justify them, and a conscience in the individual, which makes him, strive to carry them out.[1]

There should, at all times be an awareness of the traps in discussions which must necessarily be defined as ideological or metaphysical questions as distinct from the scientific. How can one distinguish between an ideological or scientific proposition? Let us take a statement in an economic sense which may be applied to an argument for the redistribution of income, and therefore, as a basis for progressive taxation. ‘All men are equal’. In what way are they equal? Are they all the same height, weight, and have the same colour eyes? A distinguishing feature contained in such questions is the difference between a subjective and objective statement.

For example, consider the statement, “That painting on the wall is a Rembrandt” as against, “I think that painting of Rembrandt on the wall is much better than that other one on the wall by Renoir.” Or, “The political party just elected with a majority of votes can now form a government”, as against, “I cannot support the government because I did not vote for that political party”. Value judgements are subjective in that they relate to a personal opinion. Value is something which cannot be measured because it is different to each individual’s assessment and personal belief. An objective judgement is based upon the external matter and the conditions that surround its being. A social objective based upon the belief that in association individuals should benefit from their association is based on reality. Because a value judgement is subjective, it allows us to make a statement about an external or objective matter without engaging in a moral judgement. This is a common occurrence in debates on economic issues where the discussion becomes entangled with a moral judgement.

The redistribution of income is based on an argument of inequality of income and therefore, on opportunities and standards of living. To suggest that because a belief is held that ‘all men are equal’ a system be introduced to ensure that all men must be made equal in respect of a certain idea is logically using a false premise to produce a logical false conclusion. To state that ‘all men are equal’ requires that it be stated in what respect they are equal. In doing this it becomes obvious that the argument is not logical and is without meaning.

This is not to say that ideology does not have a place in society. A realistic ideology or belief that forms the basis of a philosophy or point of view is the result of experience, and in this context it is related to the aspirations and expectations of human beings in association and their ability to achieve results from those associations. There exists a belief inherent in Social Credit thinking that evolves from the word Credit, that individuals in association can and should obtain the benefits of their association.

Philosophical Principles and Underlying Functional Assumptions

The earliest recorded history of Man exposes a basic instinct to fight for survival. There was always the necessity to obtain food, to protect his domain, to fight to protect his family. From there the development was to combine with others to carry out together the same functions. Developing from the basic instincts the use of that consciousness that separates humans from those other physical elements that exist in the universe, arose what may loosely be termed a morality.

The term, survival of the fittest, has a connotation of strength above other species. This denotes that there is a necessity to fight for survival, and this in turn means self-interest or an egoistical approach in obtaining the means to live a well as the means to protect themselves.

There is every justification for C. H. Douglas in making his remark to the effect that the interest of the individual is a completely totalitarian one. Nevertheless, self-interest must be tempered by some form of regard and consideration for others. Thus the consciousness of the conscience comes into being. This may be referred to as the moral sense and it is this conscience or acceptance of certain moral standards that governs the actions of individuals in relation to each other.

> “To take an example from the economic sphere, consider the respect for the property of others. Stealing as such is not very deep in the category of wickedness.

“We do not feel the natural repugnance to it that we do for cruelty or meanness – except when it amounts to cruelty or meanness – the rich robbing the poor. When it is the other way round, we rather like it. When we read that a . . . bandit who has been playing Robin Hood has at last been captured, our sympathy is not wholeheartedly with the police. Yet a lack of honesty is a very great nuisance in society.”

“In the absence of respect for property it would have been quite impossible to achieve a reasonable standard of life. Even the simple investment – ploughing for next season’s harvest – would not be worth while on a scale beyond what a man could guard at harvest time. To impose fear of punishment by force goes some way, but it is expensive, ineffective, and vulnerable to counterattack. Honesty is much cheaper. But observe, it is the honesty of other people that is necessary for my comfort. If all were honest except me, I should be in a very fortunate position.”

"Conscience is moulded in a child by his learning what is approved and disapproved by the rest of the family, but it works inwards and becomes a desire to be approved of by what Adam Smith calls the ‘man within the breast’.”

“In most societies, until recent times, morality has been purveyed through the medium of religions. Many people to whom morality was taught through the medium of religion really believe that there is no other motive for wanting to do what is right than to avoid the wrath of God: *Si dieu n’existe pas, tout est permis*. If there is no God, nothing is forbidden. This is one of the silliest things, that has ever been said.

“If I do not believe in God it does not mean that I can safely drive on the right hand side of the road in London or the left in Paris.

> "It does not mean that thieves are any less nuisance to honest men or that society infected with thieves is not involved in great expense to keep the pest under control. If a man's conscience disintegrates when he loses faith in God, it cannot have set properly when he was young."
>
> "Morality is desired and respected for its own sake; religion is being recommended to us because it supports morality, not morality because it derives from religion."[2]

Knowledge handed down from one generation to another has developed from the elementary to more sophisticated ways of not only learning about our physical universe but how to utilise that knowledge. This has led to a body of knowledge both technical and scientific that has provided an exponential growth in all areas of modern industry. The primitive use of tools, such as the spade or shovel, the axe, and the lever has been replaced by machines, capable of doing the work of thousands of men. Technology and cybernation, the use of automation and computer technology in turn has allowed an increase in production not previously dreamt of.

The growth in the use of this technology has resulted in a reduction in the use of human labour in favour of that of machines. The reality is that work has taken on a new meaning.

Yet, there are those who are dedicated to a body of knowledge that lay claim to understanding the operation of industry and the productive system. Those who make such claims are those who are invariably in control of and direct policies and are accepted as authorities because of their academic achievements in university training. These people are concerned with what they consider to be the manner by which things ought to be done. Social Credit is concerned with the way they are done.

Governments unceasingly follow directions in formulating economic and monetary policies based on the advice from these people who make assumptions about the necessity for full employment, favourable balances of trade, savings and investment, and the need for economic growth, exports and imports. They also include the mistaken belief that it is necessary to import money from other economies.

Yet, faced with realities, these assumptions are shown to border on the absurdity. For example, it is claimed that a favourable balance of trade is necessary and desirable and is good for the economy. If a nation exports 60% of its product and imports only 40% of its requirements this is regarded as being good. What about exporting 70% of our production with 30% of our requirements as imports? The suggestion that we should export 100% and import nothing as related in the satire *The Glugs of Gosh* by C. J. Dennis, would be regarded as being an absurd argument. If the question is asked, "At what point does it become absurd?", the subject is quickly abandoned.

It is to the detriment of the individual and society as a whole that these assumptions are taken so assiduously and revered because of the prestige attached to the holders. It is precisely because they are so dogmatic and disdainful in their attitude to those who propose solutions based on realities that nations in the world find their problems increasing and subject to such frequent changes in their economies.

Economic policies and planning based upon that body of learning that is accepted and held in such high esteem have had an enormous impact upon the development of current political philosophy. In the free world however, statements by political leaders proclaim their concern to preserve freedom and the common good (both abstracts). They never advocate the freedom to choose or refuse one thing at a time. Governments world wide legislate to centralise economic and political power into ever expanding bureaucracies, similar in kind if not in degree, to that of communist regimes.

The growing tendency towards bigger and bigger business, multinational companies, trading and political politics such as the European Union, the North American Free Trade Association (NAFTA) and the Asia Pacific Economic Co-operation (APEC), amalgamation of local authorities, are all evidence of this trend.

Approaches to Reality involving Perception, Conception – Experience

> "Society is a complex of observable phenomena and phenomena are observed results in nature and all phenomena (all observed results in nature) appear to arise from some mode of association".[3]

There is the perception of the object and the self. We having experienced, observed and paid attention to that perception, it is stored in the memory. It is by these means that we learn and build up knowledge. Learning may be considered as re-applying a meaning into an object as a result of experience. However, there are further matters that should also be taken into account. One is that an individual does not depend entirely upon his or her own experiences. The consequences of actions taken by others are reflected in our own responses to events.

One can learn from the experiences of others. Another consideration is that it is possible to have an experience like travelling to Europe but not pay sufficient attention to what has been experienced. All that may be remembered is a night out in a nightclub, waiting at airports, discourteous porters and waiters, a crowded train trip, or a car breakdown. To this may be added much useless knowledge and incorrect information that has been passed down as part of the cultural heritage, of which the net result, i.e., useful less useless, is an addition to the credit of society, or the Social Credit.

We, as individuals in Society, in the Universe are made of those elements and physical particles and are subject to those natural field forces that affect every other element in the Universe.

The difference between us as individuals, as human beings, and those raw elements such as protons or neutrons or atoms, is that, to the best of knowledge, we do have a consciousness. It is this consciousness that provides us through our minds the ability to capture experiences, to gain and expand our knowledge.

Positive Constructive Proposals Towards Solutions – A Pragmatic Approach

There are three aspects of Social Credit economic Philosophy included in the Cultural Inheritance, i.e., the passing down through the generations of accumulated knowledge. For example, it is not necessary for anyone to invent the wheel. The wheel was invented back in the dim past, and yet everywhere in society, benefits are still being obtained from this knowledge.

The first is the existence of real capital (not financial) in the form of natural resources; the second is the cultural inheritance, or ever increasing knowledge, and the use to which it may be put in further increasing that received knowledge of how to do things and how to make things. The third is the increased knowledge that may be used to provide for the immediate benefit of individuals, as consumers. Still another is increasing capital in the form of plant, organisation, and other technology, and the functioning of modern industry in its production and distribution process. New technology adds further to the exponential power of society to provide for the results it wants.

The application of the Cultural Inheritance in all its forms requires a correct application of the principles of association in conformity with those absolutes that exist in formulating the natural law of the universe. Time, motion, gravity, and all of those elements that must conform to the natural order of things are of utmost importance in applying knowledge gained for the purpose of increasing the benefits to mankind. Mankind has not, and cannot create any new element. Man can only change the form for better or worse.

Policy Proposals from the Philosophy

C. H. Douglas described Social Credit as the Policy of a Philosophy. It is therefore necessary, even in a brief review such as this to include some policy items that stem from the underlying philosophy that relate to the relationship of the individual to the group, or the relation between the individual and the society in which he lives.

Immediately that anyone accepts the notion that time and money are synonymous with other words such as bread, milk, potatoes, coal, silver, lead, gold, iron ore, there arises that confusion in semantics concerning abstracts, means and ends, the word, the label on the bottle and its contents.

A scarcity of money is different to a scarcity of potatoes. The first problem in the study of orthodox economics is that it is concerned with the study of choices based on scarcity. The problem with which economics should be concerned is the study of abundance and the means by which this abundance, in existence, or potential, may be made available to all. Textbooks are fond of quoting the alleged hundreds of millions around the world who are disadvantaged and who do not have sufficient to eat. That the economics of scarcity follows inevitably from the scarcity of money theory never receives attention.

Yet they ignore the question of wastage, useless production, built in obsolescence, and the multitude of restrictions that prevent the individuals in society from obtaining those benefits that have been achieved through the association of individuals, and through the abundance of natural resources.

Social Credit policy admits to the reality of the situation in that it recognises that Production is not the problem. It is not a matter of scarcity of resources, but the distribution of current abundance and greater potential capacity. To the economist the economic problem is what to produce, how to produce, who does the producing and for whom should goods be produced.

The answer in Social Credit terms would be that this is a matter of individual choice based on the ability of the consumer to exercise his or her sanction by having sufficient purchasing power to be effective in the market place and provide an effective demand.

To the economist the factors of production include Labour, consisting of people working with their minds and muscles, and Capital, consisting of tools, machinery, and buildings. This is confusing sometimes, because they also refer to money, which is not correct. Money is not real Capital. The other element in production is Natural Resources, including land, minerals, water, nuclear energy, and solar energy either in the raw form or as coal deposits, etc.

Social Credit policy perceives the reality, and having cognition of the requirements for economic democracy, recognises that the problem does not lie with Production, but with the freedom of individual members of society to avail themselves of the benefits of their association, which in essence has shown to be one of abundance. Because of the flaw in the real cost pricing system, the financial price system does not reflect reality.

One of the basic laws in the teaching of Economics is the relevance given to one factor of Production, viz., Labour. Emphasis is centred on the policy of full employment. Employment now is a means of people control and a policy based on full employment is transforming a means into an end in itself. Full employment applies not only to labour but also to capital equipment. However, it is indisputable that in economic models and arguments by economists and others who claim access to economic knowledge that measurements of statistics are in dollar terms ($). This is applied to the measurement of both costs and prices, and it is here that confusion reigns.

Economic Philosophy and Politics

A close study of policies that have been enacted to overcome economic problems will reveal that they have always engendered a necessity for more controls, increased taxation, and other means of expanding the powers of the state over individuals in all forms. Irrespective of whether the effect is felt by the individual directly, or by indirect means as a result of increased controls over industry and in particular through the mechanism of the financial system. The necessity for individuals in society or businesses or industry both primary and secondary to operate in a central bank controlled money economy, means that the use of the financial system simply by control of the money system is an ultimate control over the total population of the nation.

Douglas in his analysis of the defect in the financial system drew attention to the manipulation in the economic and political systems, and the final result of the extension of the controls into the international arena. The gradual process of centralisation of businesses, industries, and even nations into trading blocs, the controls of the IMF and the World Bank, and the establishment of the World Trade Organisation (WTO), and the cry for Reserve Banks to be completely independent from any governmental control, are all evidence of the direction being followed. It all amounts to the centralisation of power.

Together with this trend and running almost parallel, is the claim for greater globalisation and internationalism incorporating a transfer of sovereignty by nations to the idea of a one world government.

The European Union that ostensibly commenced as a trading block has become a political bloc and a monetary union with introduction of the new currency, the ECU, with all the controls that have been instituted, eventually ensures a loss of sovereignty by those nations who are part of the union.

The argument for such amalgamations and unions is quite obviously understandable, in that it claims benefits, as proclaimed by many economists and politicians, which would overcome the continuing and increasing crises of economic problems. When the benefits forecast do not eventuate, the failure is obscured by media commentators, who move responsibility across to consumers. (We must save more, etc.) It then seems logical to accept official explanations. These claims are false, because they have not and will not address the fundamental flaw in the financial system. They are in reality a means for imposing greater measures of control.

The conflict that has existed for so long in the political, economic and financial spheres was seen and extensively written and spoken about by C. H. Douglas. His analysis, which became the foundation for the development of the idea that became known as Social Credit, encompassed a comprehensive coverage of the situation. His contribution towards offering a solution to the problems that faced nations was based on the necessity to abide by and conform to correct social principles. It would have been, and still would be, worth a proper examination by those who are honest in their desires to solve those problems that still beset nations.

In itself the analysis was original although many of the ideas were in existence long before Douglas. But it was he, who brought the picture together. Whilst economists were, and still are, arguing and putting forth explanations for economic collapses, he put forward an analysis that exposed the existence of a defect that was inherent in the system that led to and must continue to lead to ever recurring breakdowns.

Band-aids may be used from time to time but the ever-increasing debt owed by individuals, industry and governments all provide the excuse for more controls.

A basic fundamental ethos in the Social Credit proposals to remedy the existing problems is contrary to those proposed by the orthodoxy.

Whilst they, the orthodox, do not give credence for the necessity to follow the principles which are of paramount importance in any society, the Social Credit proposals take into account the desirability of ensuring an acceptance of a basic principle of correct social ethics – that society and its institutions exist for the benefit of those who comprise that society, i.e., the individual. The individual does not exist for the institutions that are in existence only to serve the needs of the individual.

Contrary to the trend that has been gathering momentum for greater centralisation of power, Social Credit stands for decentralisation. The continuing acceptance by many people, which acceptance is based upon utilitarian needs, that the trend is for the good of all, has seen the gradual transfer of sovereignty from individuals to institutions. This is more evident in the current transfer of sovereignty by nations to international authority. This transfer of power without exception includes the authority over economic and political power of the nation-state, which has divested itself of its sovereign rights.

It would not be too naïve to suggest that although there have been many people who have sincerely attempted to solve the problems that beset nations both economic and political, they have quite mistakenly confused effects with causes. This can readily be identified with the reaction of those who are confronted with the fact that banks create credit. Immediately, their objective is to remove this creation of credit from the banks and give it to the government.

Because of the complete ignorance of the inherent defect that exists in the financial accounting in the economic system they cannot understand that changing the operator will not solve the problem. It may be necessary to change the function but that in itself does not solve the underlying problem. In addition, the problem is exacerbated by their continuing insistence and determination to confuse poverty and unemployment as though they were the same thing. It is little wonder that all political parties, economists and others continue to foster a policy of full employment.

This policy of full employment, on the surface may appear to be reasonable, in that it is commonly accepted that the only way to obtain money (legitimately) is by working or being employed.

Apart from the fact that there is no real connection between work and money, or for that matter economic production and money, is the insidious control that is effected over every human being. The acceptance of the condition – no work, no money – places the individual in an ever-escalating position of helplessness. Couple this with a continuing rise in the price level or a devaluation in money value with its corollary of reduced purchasing power, together with increasing taxation, and it can be seen that a policy of full employment is therefore a policy for control of the individual.

The physical reality of the paradox that exists between the productive process with ever intensifying use of new technology to replace human labour and the policy of full employment is becoming more and more evident to people outside the knowledge of Social Credit. The increased efficiency of industry results in a reduction in the need for increased employment of individuals to achieve the same output.

Although Social Crediters have stated this for decades it is now becoming apparent to others. One further problem that arises from the irrational refusal to acknowledge this inherent conflict is the antagonism in industrial relations.

Interestingly, although there has been recognition of this conflict, there is still the tendency to give priority to the question of employment. A recent publication[4] places some mysticism on the question of declining employment. "The Mystery is why higher productivity and higher exports have not led to more jobs." It acknowledges that we have reached the stage when the necessity for human labour has decreased in the face of the ability for industry to produce more and more of what people want. It suggests that due to technological innovation, the goods and services that people require can be provided with a lesser number of people in the workforce.

Douglas related the conflict of the policy of full employment with the physical reality that had its parallel in the financial system. If we accept that the real physical cost of production is consumption, and that the ratio of human energy to all other forms of energy utilised in production is reducing as a result of increased technology, it then follows that the physical cost in terms of human energy is also reducing. This being the case, then a correct financial price system should also reflect a falling real price level.

The late Professor Robert Theobald, a British socio-economist, made the following observations in his book, *Free Men and Free Markets*:

> "Our present socio-economic system only remains valid so long as it is possible for the overwhelming proportion of those seeking jobs to find them and as long as we can assume that these jobs will provide the job holder with a reasonable income. If this condition is not met, we are no longer justified in assuming that those without jobs are lazy or worthless, or in only paying them minimum incomes on a charity basis. Our present system of income distribution cannot continue if the goal of full employment ceases to be feasible or desirable".[5]

Economics: Production

These items have all been included together because they are inextricably linked in any orthodox economic discussion.

The first thing which must be understood without any controversy and on which there can be no dispute, is that, all measurements of the above factors are depicted in money symbols.

In Australia this is the dollar ($). In reality, cost and price do not necessarily have anything to do with one another. They may be brought into relationship in utilising accounting principles and this is where the present illusion is created that there now is a natural relationship.

For the purpose of brevity, in the Economic sense Incomes are regarded as the reverse of Expenditures. What is Income to one person is Expenditure to another.

Income in the economic sense is the total of incomes received by persons, businesses, and governments and provides the link or relationship between two entities used by economists known as Gross Domestic Product and Gross National Income.

Without delving too deeply into a treatise on this aspect of economic accounting, it is sufficient to say that for their purpose and by their definition, Gross National Expenditure at Current Prices, plus Exports less Imports equals Gross Domestic Product. Total Incomes as components of Gross National Product, i.e., Wages, Salaries etc., and Gross Operating Surpluses of private and public enterprises, plus net taxes, are equal to Gross Domestic Product. A reference to a set of National Accounts will reveal this.

The Federal Government operates on a Budget of Receipts and Outlays and whilst a budget may be necessary for operational purposes as in any business undertaking, it is simply not good enough for managing the affairs of a nation.

What is required is a proper National Balance Sheet with a correct Profit and Loss Statement. The former should reflect all the assets real and potential, and liabilities, and the net result of the operation of the economy, whilst the latter should show the details of the operation of the economy during the accounting period.

The details and manner by which a correct National Balance Sheet could be drawn up is not a matter for discussion here, but simply mentioned to draw attention to the fact that it does not currently exist and that what we do have is incomplete, incorrect, and contains major flaws.

The Need for Correct National Accounting

GDP statistics are noted in symbols ($) and simply taken from market activities. There is no acceptance of reality in that there are major discriminations between that which is desirable or undesirable. The use of GDP as an economic indicator fails to address anomalies that exist in real economic activity. For example money spent on correcting problems associated with pollution or wastage of resources are regarded as increasing GDP but take no account of the reduction in real costs associated with depletion or degradation of resources. Similarly expenditure in Childcare is included in GDP but the time and effort of Mothers working in the home and caring for children is not. So long as income is declared it becomes part of GDP – even for prostitutes.

Conclusion

The Philosophy of Social Credit includes the belief that people should receive the benefits of their association. The increment of association increases the ability of individuals to receive benefits, which could not be obtained by themselves. The cultural inheritance with knowledge gained, passed on and increased upon, allows for an exponential growth in the ability to provide for greater benefits. Also included is the acceptance of absolute truths of natural law.

The Policy of Social Credit is the realistic practical application of those absolute truths in the field of economics to lead towards economic security. Aligned with this is the knowledge that there are forces which are denying people access to their Social Credit. Thus an effort is required to reverse the situation. This requires the institution to serve the individual, and this requires electoral control of politics, to achieve economic security through institution of economic, in addition to political, democracy. C. H. Douglas stressed the inherent perils of political democracy in the absence of genuine economic democracy in the form of a consumer-motivated economy.

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3. *Elements of Social Credit,* Dr. Tudor Jones (The Social Credit Secretariat, October 1946).
4. *The End of Work: The Decline of the Global Labor Force and the Dawn of the Post-Market Era,* Jeremy Rifkin (Penguin Books)
5. F*ree Men and Free Markets,* Robert Theobald, Socio-economist (New York: Anchor Books - Doubleday & Company, 1965)

FURTHER READING

Why I am a Social Crediter –B. W. Monahan
Sustainable Prosperity – (set of three) The Social Credit Secretariat
What is Social Credit? – G. Dobbs
The Nature of Democracy – C. H. Douglas
The Policy of a Philosophy – C. H. Douglas
The Nature of Social Credit – G. Dobbs
The Monopolistic Idea – C. H. Douglas
The Tragedy of Human Effort – C. H. Douglas
Brief Outline of Social Credit – W. Stones
The Approach to Reality – C. H. Douglas
Neither Do They Spin – B. W. Monahan
Money and the Price System – C. H. Douglas
Introduction To Social Credit – B. W. Monahan

BASIC ECONOMIC ASSUMPTIONS

In Economics certain assumptions are made. One of the important ones around which much is written and theorised upon is economic growth. From the assumption that economic growth is the central important theme around which statistics are gathered and models built, there are other concepts that follow. The conception of growth principally deals with matters concerning an increase in total production output in an economy or sometimes the increase in output based on a per capita basis.

The economic discussions that follow from this involve an interest in people's wants and needs together with the limiting restrictions of an economy's resources. Three of the major concerns that occupy much of the economists' thinking are problems related to employment, inflation and growth itself. They then branch out into the areas that are regarded as the dominant objectives of full employment, stable prices and continued growth. Our discussion will concentrate on those areas.

Employment

Despite the continued efforts of economists, particularly those who have an influence on governments, such as those who occupy positions in the Treasury, they have not been able to have any real beneficial effect in those policy areas. Unemployment has been a problem for them for decades and their methods to overcome what they regard as a problem, have been applied through changing the goal posts. For example many believe that to be employed means having a permanent job, working for a full week and receiving remuneration for the full week.

Thus to be unemployed meant not having a full time job and not receiving an income on that basis. The goal posts have changed to the extent that a person working for a few hours or even less and receiving a pittance is regarded as being employed.

The problem for those who concern themselves with employment or more correctly (un)employment, is that it is accepted without question that it is a necessity and is treated as an end in itself. The end here can be regarded as the obtaining of an income or more directly, money. However, money itself is only a means and again is regarded, not only by economists, but also by the public at large as an end, which is completely false. It is a concept that has been fostered and maintained for purposes other than a part of what may be regarded as a simple economic activity.

The concept of employment or work has been tied to the idea of the "work ethic" based on a Biblical connotation, which has been used as a tool to ensure that "God-fearing folk" will put their shoulder to the wheel and make their contribution to the advancement of society. "The Devil makes work for idle hands" is an expression that has been used since time immemorial on the basis of a moral censure. "If any would not work, neither should he eat",[6] has been quoted many times in support of the necessity to work. Apart from the fact that this is a moral condemnation and totally devoid of meaning within the context of modern day technology it has nothing to do with economics. There is no virtue in work in and of itself. To suggest that there is simply confuses morals with economics. It is the reason for working and the expectations of the results that may be achieved in entering into economic activity that is important.

The concept of "Full Employment" gained its momentum with the economic theories of John Maynard Keynes. Keynesian economics as outlined in *The General Theory of Employment, Interest, and Money* provided an impetus to the acceptance of "Full Employment", as a policy to be followed in order to achieve the objectives, which include reaching a position of "equilibrium". This "equilibrium" involves a number of assumptions relating to Production, Consumption, Savings and Investment.

For Social Credit, an objective of Full Employment is not a consideration because as stated, it is turning a means into an end.

The problem for Social Credit is not in the area of employment but in the area of distribution in the form of money. Work may be regarded as the means by which money is distributed in the process of Production, but it is a diminishing factor and will continue to be so with the advent of technological progress. Therefore, Social Credit policy would dismiss Full Employment as a goal or objective and concentrate on the reality of a correct manner by which the distribution of money could be achieved based on the real reasons for which people associate or work. This can be stated simply by saying that people work to obtain the benefits of their association. Under the system as envisaged by economics as currently operating people do not receive the full benefits because of other factors that prevent them from obtaining those benefits.

Stable Prices

It would be a brave economist who would claim that there has been a position of stable prices for at least the forty years spanning from the '60s through to the current year 2008.

The situation with respect to inflation embodies both the negative arguments that have been applied to employment or unemployment and stable prices. Statistics that indicate the rate of inflation and the new concept of the "underlying inflation rate" do not reveal the real situation.

Inflation can be effected through a number of measures whilst at the same time hiding the reality. For instance, some economists argue that lowering tariffs is good for the consumer because it lowers prices. In a perfect world on which economists base their models it may be true, but we do not live in a perfect world. Lowering tariffs has produced outcomes whereby many industries have been forced to close or go offshore because they could not compete with the cheap labour costs of other countries. This has resulted in spite of the industries being more efficient than their overseas competitors. Yet one of the points of view of economists is that lowering tariffs provided competition to make our industries more efficient and competitive.

Completely lacking in their argument was the cost of the labour content. On this basis the only way for Australian industries to be competitive would be to pay the same cheap slave labour rates and thus lower our own standard of living to those of the third world countries from whom we import the cheap products by exploiting their cheap labour rates and low standards of living. This is neither correct in producing satisfactory economic results for domestic industries in the importing country, nor is it sustainable from a moral point of view. That is moral which works best.

ECONOMIC PRINCIPLES
Economic Laws and Limitations

The statement "Few people prefer work to play",[7] is used to explain that whilst millions get out of bed, dress, eat breakfast, drive, catch a train or bus to take them to a place where they spend eight hours on a job, they still go to work. The reason given is that people do this is to make money. This statement in itself is incorrect because they do not *make* money. They receive money in exchange for their time and energy. As money is a necessary requirement in order to obtain goods and services it is assumed that, "the notion of doing without goods is more distasteful than the notion of working".[8]

A Social Credit response to the concept of work and play is that there is no difference between them. The idea that work and play are somehow opposites, on inspection can be seen to be without foundation. A game of golf for some is a game of relaxation or exercise and is considered as a leisure activity or "play". A golfer who earns his or her living playing golf would consider it work, in the same manner that any sportsperson would who relies on the game, whatever it is, to provide a livelihood. A person who spends time at the weekend on his motor vehicle, or is involved in woodturning as a hobby, or uses a lathe to turn out items for pleasure considers their occupation as a leisure activity. Someone working in a factory for eight hours a day, using a lathe, or a mechanic in a vehicle workshop considers this work. The difference between work and play in these contexts is the receipt of money.

The reason that people go to work for eight hours a day for five days, or whatever period of time is the expectation of receiving money. They do not do it because "the notion of doing without goods is more distasteful". In this instance work is a means and the money received is also a means to obtain something else. The choice is not between work and play; it is between having money and not having money. In our current economic system it is absolutely necessary to have money to obtain anything. If for instance money were obtainable from a source other than that which is regarded as "work" in the economist's sense, people would be able to choose to work or play at whatever activity they found desirable. Under the current system they are forced to take whatever is available and the freedom of choice is limited to very few.

The economist makes an assumption that people's wants are unlimited and therefore as there is a scarcity of resources it is necessary to economize, thus the study of economics. There is a subtle but very important distinction that must be made. People's wants *may* be unlimited, but not all in the same area. For example some people may want more than one car, or television or microwave. They may want two, three or four, but not a thousand or two thousand. Their wants vary from one item to another but they can only be fulfilled if two things happen. In the first place they cannot possibly want something that does not exist and secondly if it does exist they are then limited by certain restrictions, which may be referred to as unnatural restrictions.

There is nothing that is necessary to life on this planet that is scarce. What may appear to be a scarcity is dependent upon time and place and other factors, which can be overcome by not only removing unnatural restrictions but also preserving the natural elements that are provided. This is best explained in the words of C. H. Douglas:

> "*Real credit* is a correct estimate of the rate, or dynamic capacity, at which a community can deliver goods and services as demanded. *Financial credit* is ostensibly a device by which this capacity can be drawn upon. It is actually a measure of the rate at which an organisation or individual can deliver money. That money may or may not represent goods and services".[9]

> "The only possible basis of real credit is a belief amounting to knowledge of the correctness of the credit estimate of society, with all its resources, to deliver goods and services at a certain rate. . . . *The business of a modern and effective demand financial system is to issue credit to the consumer, up to the limit of the productive capacity of the producer, so that either the consumer's real demand is satiated, or the producer's capacity is exhausted, whichever happens first"*.[10]

> "It is simply childish to say that a country has no money for social betterment, or for any other purpose, when it has the skill, the men and the material and plant to create that betterment. The banks or the treasury can create money in five minutes, and are doing it every day. And have been doing it for centuries".[11]

The distinction is the unnatural restrictions that are applied to the creation of money and the natural elements are those resources that are naturally available. This should not be interpreted as some kind of free for all creation of money for producing recklessly for the sake of producing. It is simply a statement that says that it is childish to say that something cannot be done because there is no money.

It is the restrictions on the money supply and how this is administered that is unnatural. Resources are being wasted, not because there is an oversupply of money, but because of the pernicious policies that treat means as ends, such as "Full employment", "creating jobs".

The economist argues, "The law of scarcity holds that the means of production are always scarce in relation to the demands for the goods they can produce".[12] Economic laws are not laws in the sense that they are entrenched in stone. In fact they are not laws but simply statements made to support a certain theory and not on the basis of scientific investigation.

As stated previously, people cannot demand that which does not exist. Therefore, something must come into existence *before* the demand can be made.

Wants are created by a supplier and supported by advertising and various marketing means to entice the consumer into purchasing a good or service. The necessity to economize on resources is simply an argument to support the economic theory of supply and demand, which is stated as another law. The truth is that whenever a new good or service is introduced, demand for the previous is reduced.

People now drive motor cars and rely little if at all on the horse and buggy. In other words there is a substitution that occurs, replacing the old with the new. The increase in the use of technology has seen the transfer of numerous functions in the economy at the same time reducing the need for one of those scarce resources to which economists refer—manpower. The production from land, another of those scarce resources, has been increased enormously through increased technology. One other item regarded as a scarce resource is capital equipment. Again this assumption is not correct because the use of capital equipment has increased to the stage where the problem that faces economists, i.e., ‘unemployment’, has increased and will continue to do so. Of course it can be overcome by artificial means such as forcing people to work but in the view of Social Credit this is unacceptable and unnatural both on philosophic and policy grounds.

Any business producer would testify to the truth of the fact that producing is not the problem. The problem is selling. Unless nature intervenes there is no scarcity of the means of production. The only scarcity is that which is artificially administered by the intervention of Man, and that relates to money.

Consumers and their Choices

The vital problems that need to be addressed can be stated as a true freedom of consumer choice accompanied by an effective demand together with the false policy of “full employment”, which is one of the causes of the wastage of natural and human resources.

In economics textbooks the role of consumer choice and the demands made upon goods produced plays a central part of their theory.

However, the consumer does not have the ability to exercise freedom of choice because of the restraints exerted to prevent what Social Credit refers to as effective demand. The discussion in orthodox economic thinking is reduced to consumers' preferences and the eagerness of the seller to meet those demands. Consumers can only demand what already exists in the marketplace. A demand may be created by the seller prior to the product coming on the market, through promotions and advertising, but it would make no sense for a seller to attempt to create a demand for something that did not, or was not likely to exist.

A seller may attempt to increase demand to obtain a greater market share, or have consumers substitute their preferences, but this may only be successful if the consumer is able to exercise an effective demand, that is, have sufficient purchasing power and freedom of choice.

In one sense the consumer is restricted because of a lack of purchasing power and makes choices based on that lack. On the other hand, goods that are chosen as a preference are chosen because those goods were available to commence with and represent not so much a preference in the correct sense because the consumer has a restriction in the way of limitation on the money available to spend.

The goods purchased are not so much a preference in the first order, but rather a second or third preference. The eagerness of the seller to meet the demands of the consumer is just not reality. The seller is selling goods that have been produced prior to any demand. The demand is created through advertising, marketing and other devices to lure the consumer into buying.

If this is successful and the consumer increases demand then, and then only, will supply increase. If supply is increased prior to and without any increase in demand the supplier is left with surplus unsold stock.

Price Stability

Under the heading of price stability there is contained a number of other factors. Some of these include economic growth, demand, supply, inflation and deflation. All of these subjects, from the orthodox examinations are tackled from a position of what they term equilibrium. These assumptions are made based on a perfect world, from which theories are stated and static econometric models formulated.

Prices are determined in a currency and currencies can be and are manipulated. The orthodox economist talks of the Quantity of Money Theory and this is what it is – a theory. Basically, this theory proposes that inflation always is caused by an increase in the supply of money. It expresses the view that the amount of goods and services produced in any particular period, when multiplied by the average price of the same goods and services equals the amount of money in circulation multiplied by the 'velocity of circulation'[13] of money. It is easy to see that such a theory is overindulged with assumptions.

The quantity theory of money is valid only if: there is a strict control on the supply of money; that if there are changes in the amount of money this does not affect the price of goods and services; if the velocity of circulation remains static and does not change; if the prices do not change at all; and, of course, if the price of money itself does not change. There may be other "ifs", but it is sufficient to show that if the basic assumptions are not correct then the theory has no validity. We know that the supply of money does change, that prices do change and that the price of money does change.

None of the above has any bearing on the policies of Social Credit and reality and therefore need not be discussed any further. One point that needs to be kept in mind is the Social Credit definition of inflation and that is an increase in the money supply accompanied by an increase in prices. It is not, in our view simply an increase in the money supply or the other simplistic explanation – too much money chasing too few goods.

We are not concerned with price stability but rather with an increase in purchasing power and this can be obtained by either increasing the money supply whilst keeping prices at the same level or by keeping money constant and reducing prices. Under this proposal inflation cannot occur. In what may be termed a free economy it is an impossibility to keep prices at a constant level. It is also possible that the money supply can be increased to reflect the increase in production and at the same time reduce financial prices to reflect the real physical result of production. It is not impossible to maintain a constant level of *margin* or *rate* of profit. This is not discussed here, as it is a subject in itself.

The point is that in a country where the money supply is increasing and the price level is increasing at the same rate it may or may not affect consumers depending on the purchasing power of their money. It does however affect those who rely on exports for their income and profits.

Consumer Demand

In Social Credit we talk about “effective demand”. In conventional economics the question of supply and demand rests on a completely different approach. Effective demand simply means that consumers can express their will in the marketplace by purchasing or not purchasing a product or services on a basis other than an insufficiency of purchasing power. The orthodox economists who cling to the discredited “Say’s Law”[14] are mesmerized by the circular flow of money argument and that equilibrium statement that says that national income equals the value of national product. This statement is false as national income in the real sense, not any economic theoretical sense, is not and cannot be equal to the value of national product in any given period. It is a proposition on which Keynes based his theories and which is demonstrably false. Social Credit does not utilize economic jargon to define situations that have no connection with the real world. What we say is that the rate of income generated in any given period of production is less than the prices generated in the same period.

It is interesting to note what one economics textbook says in this connection:

> "The Great Depression posed a paradox. The economy clearly could produce far more, but firms could not buy find buyers for the output. The problem was not strictly speaking, that people could not afford to buy all that the firms could make. It had long been known that the process of production automatically yields a national income equal to the value of national product – Say's Law".[15]

There you have it. During the depression the people had enough money to buy all the products that firms could make. What then was the real problem? Well, we are told that Keynes had the answer:

> "Keynes corrected Say's Law by observing that although the process of production did generate a stream of income great enough to support an aggregate demand equal to aggregate supply, there was no guarantee that people's plans would always call for spending all that income".

What this means is that although people had the money during the Depression they chose not to spend it and thus live in poverty, to become tramps and travel in freight trains, and hitch-hike all over the country in order to earn more money instead of spending what they had.

Savings and Investment

It is not necessary to go into detail in the orthodox economic theories but to take their own statement that National Product and National Income are equal. Thus the value of all production "P" is equal to Income "Y". The argument then follows that Income "Y" is made up of two parts, *consumption* and *saving*. Thus they say that national income is the sum of consumption expenditure "C" (ignoring other factors of government or foreign trade) and investment expenditures.

Therefore Y = C - I. Already we have one problem as Social Crediters and that is the assumption that the savings or money not spent is "invested". Irrespective of what economists may define as "Investment" the assumption is that it excludes expenditure on consumption goods. It can only mean capital goods or income earnings assets such as stocks, bonds or fixed deposits and the like.

If national income and national production are equal then any savings must mean some products remain unsold and this could be either consumption or capital goods. If any money so saved is invested in any future production process it means that a financial cost has been incurred without any increase in the income necessary to equal that cost. There has been a transfer of the saved money to another income stream. That money can do one of two things. It can purchase the unsold goods from the first round of production or it can purchase (ignoring interest, depreciation, profit, etc.) the goods produced in the second round. It cannot do both.

Yet we have the orthodox view with another assumption that income "Y" is also equal to consumption plus saving, or Y = C + S. Then they arrive at their equation that if Y = C + I. and Y = C + S, then S = I or savings equal investment. We disagree on the basis as stated above, that any re-investing of savings creates a shortage of purchasing power, or from their viewpoint of money, therefore there cannot be equilibrium, and secondly very little of such "saving" would be channeled into investment. Any new investment would come from a new injection of money through the banking system in the form of debt. Any increase in national income would be matched by an increase in debt. That would be their state of equilibrium.

Economic Growth

This is an area of much contention and therefore it is necessary to elaborate a little on the subject. There are three significant reasons advocated in conventional economics for the need for economic growth, which has been stated as a paramount economic goal.[16] One is related to population growth and another is that output of goods and services should grow commensurately with the growth in population. The other is the rate of growth. The orthodox economic discussions on economic growth are interwoven with full employment and price stability, each a policy objective in its own right. Employment and price stability have been discussed and attention is now concentrated on economic growth.

It is a long time since the days of Adam Smith and to what is referred to as the classical economists. However it is mainly Adam Smith to whose writings much of current day economics refers. His publication *The Wealth of Nations* is often quoted probably because it approached the subject from what can be described as a scientific examination. The work was first published under the title of *An Inquiry Into the Nature and Causes of the Wealth of Nations*.

Prior to the Industrial Revolution there was little interest in what is referred to as economic growth simply because the changes in the various aspects of living, producing and consuming, had not changed very much for centuries. During and subsequent to the industrial revolution there has been a dramatic increase in all of these areas. People are living longer, and producing and consuming much more, and at a greater pace, than for previous entries.

Although Smith defined living standards in both material and moral terms, it was the division of labor and the subsequent consequences by the adoption of this process in the productive system that has attracted much attention. The use of the principle of the division of labor meant increased production and increased skills for the workers.

The downside was the monotonous repetition of work that had to be endured. Although this may still apply in some industries today with the use of human labour, it has been supplanted by the technological advances, which provide for the use of machinery, computers and robotization.

The problem that has confronted the conventional economist is how to measure economic growth. A simple measure is what is very lightly called productivity and which in itself has been defined in a number of different ways. The simplest is an increase in production with the same amount of labour or the same amount of production with a reduced input of labour. This is a completely simplistic approach and will not stand up to a rigid scientific test. A Social Crediter would dismiss this as being incorrect and based upon false premises.

Economic growth is incapable of being measured in any one facet. It is impossible to measure something that changes from day to day or over a period of time particularly with a measure that itself changes on a daily basis, which is the symbol by which all activity is recorded.

To be able to define growth in an economy would be a Herculean task and even then not possible in reality. It would need to be able to record all the changes in the real production and consumption of goods and services, the standard of living based upon hours worked, leisure time available, and the various changes that occur in the manner and types of articles produced and services provided.

It is true that children do not have to work in mines anymore, or that the working life (to earn money) of the individual person has shortened and that this may be considered as one aspect of economic growth, but there are other features that also need to be considered. Environmental issues affect the real situation in an economy, which are the result of policies that are alleged to be for the purpose of increased economic growth. For example the policy of full employment sees the destruction and waste of natural resources and planned obsolescence for the purpose of continuing to maintain industries and as a by product to keep people employed.

Orthodoxy

Although it can be argued that it is obvious that certain benefits have been obtained through increased production, it is just as evident that increased material benefits such as shorter working weeks, holidays, maternity leave, etc. are not without real costs. Whereas one person previously could provide for a family, it is becoming more and more prevalent for both husband and wife to have to work in order to obtain sufficient earnings to obtain those material benefits.

There has been developing since the 1980s and probably earlier a tendency for conventional economists to question the concept of economic growth in the manner previously accepted. Recently one such body in its position as advisor to the Australian Government, or at least one to which the Australian Government looks for advice, raised some interesting questions.

In the June 2001 issue of a paper *Senior Citizen* circulated for Pensioners and other Senior Citizens, an article appeared that offers a completely wrong and misleading approach to a situation that exists now and will continue to increase in importance. The article appeared on page 16 under the title of "*Older workers hold key. . . .*".

The article was based upon a report by Access Economics called *Population Ageing and the Economy*. Based upon a statement, "On the face of it Australia will have too few workers to pay taxes and too many retirees who'll need economic and social support", they make recommendations, which indicate the trend in orthodox economic thinking with some economists.

Amongst other things the article said, "Access Economics says Governments must:

(a) Discourage early retirement.
(b) Offer tax breaks to keep mature age workers in the work force longer
(c) Encourage older people into part-time paid work
(d) Encourage job sharing
(e) Retrain and assist older workers with career transitions."

A cynical approach to those comments could suggest that all people over the age of 55 be put to sleep. This would solve the problem of early retirement, obviate the necessity for tax breaks for the older people, negate the necessity for them to go into part-time work which would eliminate the problem of taking those jobs from the young, and negate the necessity for job sharing and costly retraining programmes. It would also mean that the young would not need to be taxed as much and they would then be all better off. On the serious side, their recommendations deserve an injection of good old common sense.

The first fact with which Access Economics should acquaint themselves is where does the money come from to pay the wages of the young in order to pay their taxes? The second is that with increased technology the working age should be lowered. The third is that it is difficult enough under the current system to find jobs for all and that their suggestions under our current economic system would exacerbate the whole so-called unemployment problem. The fourth is that the purpose of industry is to provide goods and services not work, and if the work can be done by machines then less and less workers will be needed, not more. The fifth (and there are more but space does not permit) is that it is precisely the kind of advice that Access Economics gives that has produced the economic and financial problems with which both the older and younger generations are faced.

One thing is certain, and that is that Access Economics have never done any serious study into the tax system, the introduction of the (stolen) Social Services Levy contributions made by workers since 1946 to pay for their retirement, or the enormous benefits, in the Cultural Inheritance provided by the older workers, that are available to the young to which they have not contributed. These would include, roads, bridges, all economic infrastructure, water reticulation, sewerage, hospitals, transport, inherited skills and knowledge and increased technology.

One problem that confronts economists obsessed with the idea of economic growth without any regard to reality is the manner in which they record their statistics. All their measurement is done by using a symbol ($), to measure the amount of spending by consumers, companies and businesses, and the public sector on goods and services in a period.

This is recorded in what is known as Gross Domestic Product (GDP). This is then translated with other information (Gross National Product - GNP) also recorded in ($) symbols that is used to establish what is euphemistically called National Accounts that provide in their estimation valid data on the growth or otherwise of the economy.

Whilst it may be argued that the resultant figures do provide some means to measuring welfare, this is not sufficient or correct by a large margin in terms of Social Credit requirements. It is of little use in determining what benefits have been achieved by the people of a nation according to their input, the increase in technology, the amount of unpaid labour that goes into charity work, work in the home and many other factors. Neither does it record the waste of resources; damage to the environment, and yet at the same time recording as a positive contribution the costs of repairing damage caused by natural disasters. At the same time there is no allowance for the ($) costs incurred as a result of damage done by individuals in society yet includes the cost of rectifying that damage. There is little doubt of the inadequacies in the use of GDP for measuring economic performance.

GDP and GPI

A group formed in 1997 called the GPI Atlantic, which is a non-profit research group is advocating a Genuine Progress Index (GPI) as an alternative measure to GDP.

Their Statement of Principles says:

> "The Genuine Progress Index is based on the fundamental understanding that economic and environmental realities are inextricably linked. Although we conventionally measure prosperity by material gain, the GPI recognizes that long-term prosperity and well-being are ultimately dependent on the protection and strengthening of our social and environmental assets. If these deteriorate we are not living 'sustainably' and we leave a poorer world to our children.

> "The Genuine Progress Index also recognizes that any index of progress is value based and must answer the question 'progress towards what?'"

The idea is not new and in October 1995 Senator Byron Dorgan (USA) spoke on the need to rethink notions of economic progress. After remarking that the GDP is fatally flawed, he said:

> "The gross domestic product adds up everything Americans spend and declares that as the total good. As a result, the hundreds of billions of dollars that Americans spend to cope with crime, the lawyers, and social breakdown cost, are all GDP."

Most of Dorgan's speech was based on an article that had come out of the *Atlantic Monthly* that same month, titled "If the Economy is Up, Why is America Down?" In it authors Clifford Cobb, Tad Halstead and Jonathan Rowe (who now does research for Dorgan) propose a different measure – a Genuine Progress Indicator (GPI). The GPI would add up the nation's expenses (GDP) factor in sectors that are usually excluded from the market economy such as housework and volunteering, and then subtract social ills: crime, natural resource depletion and loss of leisure time. [Extracted from an article by Linda Baker – *The Genuine Progress Indicator could provide an Environmental Measure of the Planet's Health*].

Other groups are taking the matter on board including the Australia Institute, a think tank based in Canberra. Director Clive Hamilton of the Australia Institute said, "Our research challenges the obsession of policy makers with the growth rate and forces us to ask what really makes a place better off".

A further interesting observation by Mr. Hamilton was his comment, "There is a need for a *new accounting framework if we are to measure the true impact of public policies on national well-being"* [Emphasis added].

We would go further and suggest a new accounting system[17] that established a proper National Balance Sheet which ref1ected the true assets of the nation and the liabilities.

Currently the so-called National Accounts are not proper accounts.

Not only should there be a National Balance Sheet but also a proper Profit & Loss Statement incorporating many of the aspects envisaged in the idea of a Genuine Progress Indicator.

Finally, the results of the Profit & Loss Statement would provide the basis for introduction of new money, not as a debt as at present under current banking arrangements. The task could be determined by a statutory body, free from Government interference with authority to direct the Reserve Bank to create any necessary increase in the money supply. Obviously this would entail the curtailment of the creation of the nation's money supply by private banks who create it, lend it and claim ownership of it.

This would then open the way for the National Dividend and its counter-part the Compensated Price discount to allay any fears of inflation.

Any idea that the introduction of these two concepts would present a problem, would pale into insignificance when measured against the introduction of the GST with the hundreds if not thousands of anomalies that have occurred and required amendments to legislation.

Economic Growth an Abstraction?

Without proper definition the term "economic growth" may be a "buzz word" used in the same manner as the phrases "in the national interest" or "in the public interest" and as such may be regarded as an abstraction that can be used to cover a host of things. Without a clearly defined meaning it can be used to make claims that, whilst in themselves may be meaningless, may offer an opportunity for certain policies to be implemented (or that may have been implemented) which may be difficult to justify on closer examination.

For decades "economic growth" has been a major objective of governments and is neatly couched in terms of a rate such as a "rate of growth of 2% or 4%".

Such an expression implies measurement and as stated, that measurement is in symbols such as ($) for the dollar or whatever the currency happens to be. It is not possible to measure all the goods and services produced in an economy on the current basis simply because of the tremendous difficulty in measurement, let alone correct measurement. It is an estimate and no more, and based on the symbol ($) which itself is a changing measurement. It is similar to estimating the average size of domestic dwellings in aggregate using a metre rule that is shorter or longer each day or month or average length over a particular period. GDP bears no relation to money transactions, as apart from the end product figure (price) and it has no connection with the rate of f1ow of money, which is determined by factors quite unrelated to the production of goods and services. In addition the rate of flow of money in and out of the banking system, interest and bank charges do have a bearing on the availability of funds for consumers to apply an effective demand. This in turn has a bearing on the statistics collected to determine economic growth.

Unlike the discredited economic theory of supply and demand the Social Credit policy is to provide a system to allow for an "effective demand", which would, with a proper accounting system reflect a more accurate assessment of the prosperity of the nation.

Currently, effective demand is dependent upon the availability of ($) and this is not dependent upon physical production but upon policies of the financial institutions, namely the banking system. It is not the production system that creates money but the availability of money that *provides* the means to utilise the ability to produce.

The Commonwealth Treasury in a white paper in 1964[18] stated,

> "So long as total demand in the economy is maintained at a level sufficient to provide employment for the growing work-force in a context of improving technology and hence output per worker, it seems reasonable to think that economic growth is likely to occur as fast as it can, other things being equal. In short, reasonable stability of costs and prices is not an alternative to maximum economic growth but appears to be a necessary (though not a sufficient) condition for it in the long run".

This suggests that the aim or objective of production in an economy is to provide employment and not the satisfaction of community needs through effective demand. Social Credit policy would disagree with this contention completely. If effective demand can only be achieved through employment for people to enable them to obtain the means to make their demand effective, then this could be to the detriment of technological progress that would slow down the rate of increase in growth. On the other hand, if it does not restrict the rate of progress of technology, then there is every prospect that whilst there may be a stability in costs and prices, economic growth may still not increase, because of lack of effective demand through increasing unemployment.

There is an inherent conflict between the physical realities of modern methods of production and the determined and universal attempts to make the industrial system provide “full employment” (of labour).

It is being insisted that the industrial system accomplish two things – become increasingly efficient in the use of new technology and at the same time provide as much work as this efficiency saves. It is irrational to expect that such contrary aims can issue in tranquil social order and stability of costs and prices.

To ascertain whether or not the policy objectives of economic growth, full employment and price stability have been successful or not should rest on facts and not on statistics or theoretical considerations.

If economic growth is required to maintain the standard of living the first question to be asked is how much has the standard of living increased and what is the criteria for determining the standard of living? It could be argued that economic growth has increased over the last fifty years, to take a sample period, because of the increase in the output and the number of people employed.

On the other hand it may also be argued that although aggregate output may have increased and population has increased relatively that there has been a decrease in the number of people permanently employed whilst at the same time they are working longer hours. At the same time it requires two people to provide an income to live and be able to purchase a portion of any increase in the output.

If a standard of living means anything surely it must include being able to survive on current earnings that are supposed to be related to an increase in output. Disregarding the question of unemployment it is obvious that people are not surviving on current earnings because of the huge increase in debt.

"What the community wants, as expressed through effective demand, is thus the final arbiter of the pattern (and hence will affect the measured rate) of growth".[19] Effective demand requires sufficient purchasing power to enable choices to be made freely without compulsion or that may result from a lack of purchasing power to make that effective demand.

To add to this is the question of price stability. It is without question that prices have not remained stable over the last fifty years and anyone who has saved money will testify that a dollar today will not purchase a fraction of what it would have purchased fifty years ago. Again, it may be argued that it is all relative because wages have also increased in relative terms but this argument cannot be sustained simply because of the increase in personal debt and its effect on the reduction of personal expenditure.

If economic growth expands at an average of 2% per year and the CPI (Consumer Price Index) grows at 2% per year and average weekly earnings grow at an average of 2% per year there cannot possibly be an increase in the standard of living. However, to use these statistical figures provides neither a correct view of the state of affairs nor of reality. The real unit of the world's currency is effort into time, i.e., the "time-energy" unit.[20] The truth is that the increase in that one fundamental currency with which every individual, on the cheapest terms, "can liquidate his debt to nature in respect of food, clothes, and shelter is *clearly dependent on process;* that is to say on the time-energy units other than human energy that he can press into his service and by getting free of this debt with the minimum expenditure of time-energy units".[21]

If the economy operated on a correct recording of events in the economy and if the standard of living was improving it would be natural for people to work less hours, and utilise more energy from sources other than human, with the subsequent increase in leisure together with economic security. This is clearly not the prevailing situation.

On a more positive note, the compilation of a set of accounts that correctly accounted for the operations in an economy including those factors mentioned such as environmental damage, including pollution, the waste and damage and usage of natural resources, the recording of natural assets, etc., would offer a more accurate picture of whether or not the economy was functioning for the betterment of the people.

The Social Credit approach is to reject the notion of Savings for Investments and stress the necessity for New Credits for New Production.

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Loan Credits and Cash Credits

Economists refer to money as a means of exchange, a standard of value, a store of value, or as a standard of deferred payments. They discuss the demand for money and also the limitations on the supply of money. These limitations are based on the ability of the banking system to provide loans or the deficiency in demand by the public for loans.

In all cases the current acceptance for the existence of money is surrounded by its relation to currency, not goods.

Nowhere do economists discuss the different types of money that are used in our society although they do recognize that money has had many forms over the centuries.

They support their arguments with respect to money and its availability through the theory of the "Velocity of Circulation of Money".

The following article is designed to remove some of the shortsightedness and erroneous theoretical aspects usually attributed to money and its functions. Accepting the definitive definition of money as being, "Any medium, no matter of what it is made or why people want it, no one will refuse to accept it in exchange for his goods, if he is a willing seller".

Study reveals that currently accepted language of traditional orthodox thinking is inadequate and that the real issue is not simply a matter of referring to all money as just "money", but requires also consideration of the subtleties that may be revealed on closer examination. Most people regard money as the cash and coin in their pockets and deposits in the bank. Deposits in the bank are comprised of cash and coin and transfers of credit facilities provided by another bank. When people attempt to draw out what they think is money it is quickly realized that the money they think exists in the form that they consider to be money does not exist. That happens when there is a run on a bank. These subtleties make a vast difference in understanding the use of money in the finance/economic system.

New Credits for New Production

Cash Credits and Loan Credits

When Douglas used the term “Credits” he was always quite specific. Whether it was in the use of an adjective to describe what type of “Credits” to which he was referring or whether it was embodied in the context of what he was writing, he was quite specific as to what he was referring.

Douglas defined Credit as having two major components. Real Credit is a measure of the capacity to produce and deliver goods and services, as, when and where required. Financial Credit is a reflection of real credit.

However with regard to Financial Credit, Douglas was always careful to distinguish between what he termed “Cash Credits” and “Loan Credits”.

If we disregard for the moment the use of currency, i.e., notes and coins, it is readily accepted that the major portion of what is regarded as “money” used as effective demand is dependent upon bank loans. Bank loans are in fact “Loan Credits” which because they are loans must be repaid. All currency is credit, but all credit is not currency.

“Loan Credits” can be distributed in the form of (1) payments for capital goods and raw materials and (2) for wages salaries and dividends.

In the case of (1) there is a transfer of credit, which has now become “money” in the sense that it has been accepted as such by both the purchaser and the seller and that transfer has been effected by means of a paper or computer record in the books of both parties involved.

In the case of (2) the payment is in exchange for labour, which is not transferable.

Although it is possible that the seller in the case of (1) may draw currency (notes and coins) against his deposit received from the purchaser, it is of no consequence in the scheme of things, i.e., unless everyone wishes to do the same thing at the same time. That is when people realise the money (legal currency) does not exist in the form and quantity they think and governments are required to take action to provide banks with more currency.

The important factor is that payments for wages, salaries and dividends, whether in cheque form or cash, are in reality cash credits that form the basis for the purchasing power required to purchase end products, i.e., consumption goods.

The use of "Cash Credits" by purchasing consumer goods and services is to meet the "Prices" that have been determined by payments as described in (1) and (2). Even if we do not allow for the time factor the inclusion of other charges such as interest payments on the "Loan Credits" and the profit, it is not difficult to see that ALL PRICES CANNOT BE MET on the basis of the original "Loan Credits". It does become more obvious when time is introduced and it is viewed within a particular time frame.

Now, if any portion of the original "Loan Credits" is saved a further problem arises. Any "Cash Credits" in the form of wages and salaries not spent but "saved" and reinvested, e.g., in a further round of production creating a new set of prices, means that that portion of the original "Loan Credits" not spent, cannot meet both sets of prices represented by those "Cash Credits".

In exactly the same manner, any profit not distributed in dividends as "Cash Credits" creates the same situation, i.e., a shortage of purchasing power to meet the prices established.

The situation would be no different if some of the original "Loan Credits" were used to purchase finished consumer goods. Prices would be met; the money would flow back to the bank, including any profit or other charges not distributed.

Douglas made it very clear in his Swanwick address in November 1924 when he said:

> "1. *That the cash credits of the population of any country shall at any moment be collectively equal to the collective cash prices for consumable goods for sale in that country, and such credits shall be cancelled on the purchase of goods for consumption.*

> “2. *That the credits required to finance production shall be supplied, not from savings, but be new credits relating to new production.*
>
> “3. *That the distribution of cash credits to individuals shall be progressively less dependent upon employment. That* is *to say, that the dividend shall progressively displace the wage and salary”.*

Douglas was referring to the National Dividend in the item marked (3).

The concluding remarks, in that address, clearly indicate what Douglas was thinking with respect to undistributed dividends and profits of the banks.

This information was offered to the Committee on Finance and Industry during the Macmillan Commission enquiry of 1930 by request after cross-examination and is included in the Addenda to his book *The Monopoly of Credit*.

In his book *The Control and Distribution of Production,* Douglas again is quite explicit:

> “. . . loan-credit is the form of effective demand most suitable for stimulating semi-manufactures, plant, intermediate products, etc., and that “cash” credit is required for ultimate products for real personal consumption. The control of production, therefore, is a problem of the control of loan-credit, while the distribution of ultimate products is a problem of the adjustment of prices to cash credits. It is only with this latter that we are at present concerned”.

To illustrate his point Douglas pointed out quite correctly:

> “Credit-issue and price making are the positive and negative aspects of the same thing, and we can only control the economic situation by controlling both of them – not one at a time, but both together, and in order to do this it is necessary to transfer the basis of the credit system entirely away from *currency,* on which it now rests, to useful productive capacity”.

It seems clear to me that the problem experienced by some readers with respect to the statement that "credits to finance production shall be supplied, not from savings, but be new credits relating to new production", reveals a misunderstanding.

Michael Rowbotham in his book *The Grip of Death* disputes the assertion "that money repaid to banks in respect of a loan was effectively destroyed" and suggests that it is incorrect. He argues that the quote attributed to Reginald McKenna was that, "every loan, overdraft or bank purchase creates a deposit and *every repayment of a loan, overdraft or bank sale destroys a deposit",* places the emphasis on the word "deposit".

He then asserts that,

> "money is not destroyed, *but* is *withdrawn from circulation*. Thus the total of deposits held by the population is decreased. In this sense, a *deposit* has been destroyed, but not the money. If the quote by Reginald McKenna is closely read, this is what he actually says. Upon repayment of a loan, money returns to the bank or building society that created it. This money then only re-enters the wider economy if someone else takes out a loan."

This is perfectly true and to the extent that the bank does not at that point of time lend an equivalent amount to the repayment the money supply has contracted, or to put it another way that "money" has been "destroyed".

In the case of a loan credit it is simply a bookkeeping exercise. The use of the words "destroy" or "withdrawn from circulation", or "destroying a deposit" is a matter of semantics. One could just as easily say that every repayment of a loan by transferring an amount from one account to another account has the same effect. In one instance an account is debited and in the other an account is credited. Where a loan account, which has a debit balance, is credited with a repayment that account is either reduced or cancelled out with a nil balance.

A bank in receipt of a repayment against a loan will certainly receive this payment as a deposit (liability) and will credit it against the loan (asset) thus cancelling out the amount in their books by reducing their assets (loans), but when deposited in their exchange settlement accounts with the Reserve Bank they will have increased their assets with their deposit in the Reserve Bank. The bank from whence the money for repayment was drawn will have its account in the Reserve Bank debited thus reducing the money supply by an equivalent amount.

When any repayment of a loan is made to a bank that original amount of "money" loaned is effectively destroyed. When a debit equals a credit the balance is nil, zero, nothing. When a bank makes a loan and "credits" a depositor's account, which the borrower can draw upon, there is a corresponding debit to the borrower's loan account. The addition of interest is an addition to the money supply and is part of a bank's income. To the extent that a bank makes a profit from its earnings and charges, etc. and other earnings less its costs, that profit is an addition to its reserves. However that profit has to be created somewhere within the banking system, and can only arise through further lending. It would not be correct to infer that a new loan taken out is the same money that was repaid against a previous loan. Although there is an *increase* in the money supply each year it is not because the banks re-lend repaid loans.

The increase is due to other factors such as utilising their reserve ratio (which was effectively increased with the repayment of the loan), an increase in currency or cash or a net increase in deposits due to export earnings or overseas borrowing. An increase or decrease in the Capital Adequacy requirements is also another factor. This is a subject for discussion in its own right.

When loans are repaid (excluding the interest factor) and if the bank did not make any new loans, the aggregate amount of money in the economy would be reduced. If a bank makes a new loan to the equivalent amount of the repaid loan the money supply increases and the total of the money supply would remain as before the repayment of the previous repaid loan.

However a bank can increase its lending if its reserves are increased. The whole point of the operation is the rate of flow of "money" out of and into the banking system. The new loan, when used for new production creates a new cost cycle.

Douglas described money as a rate. That rate is determined by the rate of flow of money from the banks and the flow of money back to the banks. The real measurement of this flow is capable of being measured by the *movement of an amount in a time*. In the context of this discussion we are concerned with something that takes place IN THE SAME TIME PERIOD – i.e., the amount of $ being created in the same time period as the $ cost per price unit of production is allocated.

It is a mathematical requirement of *saleability* of goods produced that goods and prices on the one hand, and monetary tokens (whatever the form) on the other hand, should flow *AT THE SAME RATE*.

New Loan Credits for New Production

The financial monetary system as it currently operates is a debt system. All money in existence is a debt. It ought to be, but is not, a reflection of the real credit and should be equal to the price values created as a result of its use, after it is created. All financial transactions that record the trading of second hand goods or "butcher/baker" transactions need not concern us because these merely represent the transfer of money from one party to another. The money supply neither increases nor decreases.

Thus, even if all money in existence did equal the price values of goods available, the moment that any of that money that was held in savings or undistributed profits was utilised in a new round of production a new set of prices would begin to be created without any new money coming into existence.

Therefore it requires that any new production should be financed out of new loan credits created for that purpose.

In order to overcome the difference established between prices AT THAT TIME and any inflationary effect of the new credits it is necessary to reduce prices to the extent that the costs of production are equal to the costs of consumption.

The Keynesian principle of "pump priming" is well known and it was an acknowledgment by Keynes (previously ignored by economists) that there existed a gap between purchasing power and prices. The action of government spending (through borrowing, i.e., deficit budgeting) for public works is no different to banks lending for new production. It pumps more money into the economy without goods coming into the buying range of the public.

In reality, government borrowing is eventually expected to be made up by the public in taxation to repay the debt, and in the case of bank lending it is only a temporary measure because the new production generated will produce more prices. Nothing is altered except that debt increases, although government deficit spending as such is no different to that in the time of war and necessitates an increase in taxation and other controls to curb inf1ation because more "money" is around without a corresponding immediate increase in consumer production. The increase in the money supply gives the false impression that the economy is doing well.

New Credits, Money, Legal Tender

There is a great difference between the term as used by Douglas, i.e., "New Credits" and the use of the word "money" They are NOT synonymous and this is probably one of the reasons that so much confusion exists in the minds of people who occupy themselves with the questions surrounding money: Of what does it consist? How does it originate? How is it now created and where resides its ownership? – and a host of other matters, including the ratio of currency or "legal tender" to bank created credit. Percentages of notes and coins and government securities held by banks which can be readily converted into notes and coins, to deposits [the old LGS ratio] or the same assets of notes and coin and government securities as part of Prime Assets to provide a prime assets ratio, are quite irrelevant to the topic of "New Credits for New Production".

We have no problem with accepting the definition of money, and neither did Douglas in *Economic Democracy* when he quoted that definition by Professor Walker from his book *Money, Trade and Industry* (P. 6):

> "Any medium which has reached such a degree of acceptability that no matter why people want it, no one will refuse it in exchange for his product."

Douglas makes a very pertinent observation following that quote when he says, "So long as this definition holds good, it is obvious that the possession of money, or financial credit convertible into money establishes. . . ." Note that he distinguishes very clearly between money and financial credit convertible into money. Financial Credit provided by the banking system (and it is this financial credit to which I refer) is simply just that, financial credit. It acquires the property of money when it is drawn upon, used and accepted by the person to whom payment is being made. If a person refuses to accept either notes or coins, or a cheque drawn from financial credit provided by the bank, it is NOT money. It becomes money when and only when the people who want it accept it. The main difference being between that which is regarded as "legal tender" and bank credit.

This discussion is in relation to New Credits and to avoid the very confusion that has arisen, the word 'currency' should be disregarded and concentration should be on the term "New Credits". It is vital that there be a full understanding of the term 'Cash Reserves' and the fallacious use to which that term has been put to cover the fact that banks create what is commonly referred to as money. Percentages are not required, whether 10% or 95%; but what is required is to understand that the major portion of what is regarded as 'money' used as *effective demand* is dependent upon bank loans. It is a major portion because, even though export income, for example, may provide the basis for banks to extend their loans by a percentage or ratio of five to one, or ten to one, or ninety to one, the fact is that the original amount is not created by the banks in this country but is the result of corresponding transfers between central banks.

If I sell something to someone in the USA, I receive my credit to my bank account, which increases the amount of money available to be used as effective demand and is not as the result of a loan from my bank. This is a simplified explanation of the total process and should not be taken as a full explanation.

It certainly is not correct to say that the creation of a deposit can only occur when money is first created as a bank-created loan.

When an export "credit" is earned, the money supply in the country receiving that "credit" is increased when the Reserve Bank credits the account of the nominated bank (i.e., the bank of the exporter) in that bank's account with the Reserve Bank, which is subsequently credited to the exporter's account. It is an increase in the aggregate money supply but is NOT as a result of a bank loan. It is correct to say bank loans are in fact 'Loan Credits', which, because they are loans, must be repaid and this, in the context of a discussion of "New Credits", is what the discussion is about. Export credits are not loans to the recipient and therefore not a creation of "money" by that bank.

If notes or coins leave the bank illegally there is not an increase in the amount of money. If the account of a depositor becomes non-repayable and becomes a bad debt, it is written off and consequently reduces the assets of the bank on their balance sheet and this is no different to notes or coins going missing. On the other hand if a counterfeiter is able to produce and circulate counterfeit notes that are accepted and used they do become money, even if illegal 'currency'.

An interesting reference is the case of the Bank of Portugal versus Waterlow and Sons. In that judgement the word "illicit" and not "illegal" was used extensively throughout and emphasised during that case. Further interesting consequences followed from the actions of a person named Marang. Marang got Waterlows, who were *currency-note printers* to the Bank of Portugal, to supply him with currency notes to the value (obviously face value) of £1,000,000 on the pretense that he was the agent for the bank.

These notes he took to Portugal, where he passed them into circulation, buying goods, property, paying taxes, and so on. This so-called "illicit" money did everything that the legal money was doing. The joke in this case was that both sorts came from Messrs. Waterlows! Well, the fraud was detected after a considerable time (some bank official noticed two notes bearing the same number). Whereupon, the Bank of Portugal solemnly went through the farce of withdrawing Marang's illicit "Waterlow-notes" and exchanged them for legal "Waterlow-notes", *which it got Waterlows to print* for that purpose. And, to crown the whole Alice-in-Wonderland procedure, five Lords Justices who tried the final Appeal in the House of Lords could not agree (3 against 2) what damage had been sustained by the Bank of Portugal. No other parties had been affected, for every holder of an illicit note had received a legal note in exchange. (See judgements pronounced on April 28, 1932.)

It may be contended that currency in the hands of the banking system has no face value. This is quite irrelevant. All paper money is just that, "paper". Coins, which are not worth discussing, may have some value in their metallic content but that is also irrelevant. When a bank receives currency, either from the Reserve Bank or as a deposit from a customer their accounts are adjusted in such a manner as to record this fact. If all the currency in a bank was destroyed but the accounting records remained intact, the bank loses only paper. Again it could be claimed that a party other than the bank could not replace the notes except at the cost of the face value. This is quite obvious because if another party had their notes destroyed there would be no official record that they had those notes/coins in their possession.

There must be a recognizable relationship between money and the thing it represents. Whilst it may be agreed that there *should* be such a relationship, there currently is, in Social Credit terms as expressed by Douglas, no such relationship.

It may be illogical to assume that anyone would borrow money if there were nothing available to purchase. However, it is not illogical to suggest that if I wish to manufacture something that does not exist, e.g., a "spectrotonochromaticvibratory intramural veremifuge", and I required certain materials to carry out this production, there are two avenues open to me.

I can utilise natural elements that do exist, such as solar energy from the sun, or wind power, or even energy from the movement of the changing tides or a number of other energy sources, and it may be possible for me to utilise other existing facilities which I might invent to harness that energy. I would not require any money. On the other hand, if I required certain items such as timber from a forest, or water from a flowing creek, or any other such "raw materials" against which there is no equivalent money, and I could only obtain those raw materials by paying someone some money, I would have to use money that I have "saved", that was already in existence. This money would be the result of money used in producing something else in another production cycle for which there would be an existing "price" for the thing that existed. The alternative would be to borrow the money, which would be a "New Credit" and with no relationship to any other thing. It would be quite incorrect to assume that "whatever is needed for the new production is available . . . since the things needed are available . . . their money equivalent must also be in existence somewhere in the community". This is a material fallacy known as the *Petitio Principii* (Begging the Question) i.e., making a surreptitious assumption in assuming the proposition to be proved.

It is indeed wrong to assume that the money exists, which is equivalent to everything required for new production because the materials are available. In fact that is the very basis of the argument put forward that it is quite ridiculous to argue that we cannot build schools, roads bridges, retrieve minerals from the ground or any other form of product on the basis that there is no money available.

It is not a question of whether the money exists but whether it should be created to be used for a new round of production. The problem is exacerbated because there is no record of the money value of assets that do exist, not only of items that have been constructed or built by governments and industry but also of the immense assets that exist but have not been utilised despite the existing need and potential. Any money that would have been created (borrowed through bank loans) would have long been repaid to the banking system and cancelled, except for the interest.

The importance of the rate of flow from and to the banking system, of what does become money in the facilitation of the use of bank credit, cannot be stressed too strongly. Any bank credit (a loan which has to be repaid) constitutes a "cost" in the production process. This cost ultimately finds its way into "price".

If the "Price" is met, the money finds its way back to the bank and is cancelled. If the "Price" is not met there remains an item with a "Price" attached and the money is still in circulation, even if hidden in a jam tin in the back yard. The equivalent loan recorded in the bank's books still exists and that same money (in the jam tin) cannot be used for new production without creating a further cost and price to be recovered. Thus, there exist two prices and one amount of money. This circumstance requires "New Credits for New Production" so that the gap that would be created by "re-investing" existing money would not occur.

Douglas pointed out quite clearly that there was a flaw in the accounting process with the subsequent result of ever increasing debt. This has been vindicated by time. His proposal for "New Credits for New Production" was part of the solution to the problem; the other parts include the National Dividend and the Compensated Price mechanism.

In conclusion it can only be suggested that if **ALL** money assets were used to pay **ALL** money liabilities without any furthering borrowing or creation of money otherwise, the only things that would be left would be physical assets without any money equivalent. To facilitate any new production using a monetary system and utilizing existing materials would require "New Credits for New Production" because the money equivalent ***WOULD NOT EXIST.***

EPILOGUE

To the layman both the subjects of Economics and Social Credit may appear to be beyond their comprehension. It is hoped that the previous pages have offered a glimpse not only of the differences between Orthodox Economics and Social Credit but the practical solutions to the problems that exist.

Recent world events are more than an indication that there is a problem with the financial system that requires rectification. Under orthodox principles this is not likely to occur. However, the very steps taken to attempt to avert an international crisis are a vindication of the Social Credit principles embodied in its Policy and what needs to be done to correct, not only the financial accounting flaw in the financial system but also to circumvent the ability to use credit in the damaging manner in which it has been used.

A reading of *An Introduction to Social Credit and National Accounting* treats the situation on a more technical level by proposing suggested ways and means to correct the flaw in the financial accounting system. Although not a definitive outline it does go a long way to expressing the ideas discussed in these pages in a practical manner to address the Financial Accounting system's problems.

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