NEW CREDITS RELATING TO NEW PRODUCTION

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Had Major C.H. Douglas written nothing on economics other than his three main principles, or precepts as I prefer to call them, the entire financial mechanism of a Social Credit economy could be deduced from them. It is clearly apparent that he was extremely careful in his choice of words in formulating these precepts; an eminent engineer, he was delineating, as he stated, "the mechanism by which the situation can be put right" -- right in the strict engineering sense. No phrase or word in these precepts is redundant and, considering their far-reaching implications, it will be readily appreciated that in their wording exceeding care was imperative to avoid ambiguity. Three times he enunciated them in public: at Swanwick in 1924: in evidence he gave before the Macmillan Committee in May, 1930 and, lastly, in an address he gave to the London Socialist Forum at Caxton Hall in October, 1930.

I quote the precepts as he delivered them at Swanwick and, as we are concerned for the moment only with the first two, the second one is again quoted as he amended it in his Caxton Hall address:-

(1) "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 cash credits shall be cancelled on the purchase of goods for consumption."

(2) "The credits required to finance production shall be supplied, not from savings, but be new credits relating to new production."

(3) "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."

(2) Caxton Hall. "The credits required to finance production shall be supplied, not from savings, but from new credits relative to production, and

shall be recalled only in ratio of general depreciation to general appreciation."

Our understanding of the first two precepts must hinge primarily upon our interpretation of "new credits relating to new production" (Swanwick) and "new credits relative to production" (Caxton Hall). In the first place it is plainly evident that the terms "production" and "new production" have the same meaning. His use of the term "production" at Caxton Hall removes any ambiguity that might be attached, and has been attached, to the term "new production".

As an instance of misinterpretation - others were less excusable - "new production" has been interpreted by some to mean increase in the production of goods. But that meaning could not possibly apply to the unqualified term "production" for "production" is not limited to its increase. In the economic sense "production" means created values, which are, of course, price values. New credits are to be related to these price values.

Now, it would be meaningless, and probably impossible in any case, to assess collective price values as these are created day by day by every business in the country. Price values must be considered as a flow; that flow must be measured at one point. What is that point, and how can the flow be measured? Price values flow on to the retail market; they are price values of consumer goods or ultimate products for sale. These goods acquire the title "new production" when they are in all respects prepared ready for delivery to retailers, at which stage they will be in the hands either of the last producer in the chain or of the wholesaler. At that stage the products have attached to them price values embodying all costs so far generated in their production, some of them years ago.

New credits relating to these products (new production) at that stage concerns their purchase by retailers. This involves that the retailer shall employ new credit (not savings) for the purchase of the goods. But that is not the only "new credit relating to new production"; the retailer has other costs - transport, wages and salaries,

repairs, rent, obsolescence - costs which create additional price values; these costs too, must be met only by new credits.

Thus retailers' total running costs would be wholly financed by new credits. Today a large amount of retail business is operated on bank overdraft. It will be shown that the procedure has an important relation to the first precept in its bearing upon the cancellation of cash credits "on the purchase of goods for consumption". This requires that the advances of new credits, which would be made by the trading banks, would be interest-free, a provision that would undoubtedly be attractive to retailers and so minimise any initial opposition to the scheme. The question of trading banks' remuneration for their services to retailers will be dealt with later.

The totality of trading bank advances to retailers would measure the sum of price values of ultimate products flowing on to the retail market. Such advances would, of course, have to be recorded at one point to reveal their total. This could be done automatically, and in complete conformity with Douglas's second precept, if the advances did not originate in the various trading banks but from a single source, the Reserve Bank, which, by the way, need not essentially be a State bank. The credits required by the trading banks to finance retailers would be obtained by them only from the Reserve Bank, and thus the precise measure of the total flow of price values on to the retail market would be revealed at any moment, and at one central point - an electronic computer at the Reserve Bank.

Arising directly from the new credits relating to new production are five categories of cash credit :-

Wages and salaries paid by retailers.
Retailers' profits.
Bank profits in respect of their services to retailers and to the last producer in the chain or to the wholesaler.
Producers' (last in the chain) or wholesalers' profits.

National Dividend cash credit.

All of that cash credit is spent in retail purchases and must, of course, contribute to repayment of retailers' bank advances.

As "new credits relating to new production" shall supply "the credits required to finance production" clearly that would be impossible if the financial figure equivalent of the new credits was destroyed on repayment of retailers' bank advances, or on repayment of producers' bank advances from money paid to them by retailers. The ancient emblem representing life by a circled snake biting its tail is a good illustration of the meaning of Douglas's second precept; but perhaps the best illustration of all, and one that can apply to an expanding economy (which is normal), wherein there is an increase in the ratio of general appreciation to general depreciation, is the continuous circulatory movement of the blood-stream of a growing child.

The blood-stream (liquid credit) is, in a particular sense, new blood (oxygenated) every time it leaves the lungs (the Reserve Bank). It issues to the heart (the trading bank system) where it is pumped into the arteries (the industrial system), thence to the capillaries (spenders). When spent (deoxygenated) it returns through the veins (the industrial system) to the heart (the trading banks) and so back to the lungs (the Reserve Bank) where it is sanctuarised, and where it is again available as new blood (new liquid credit) to supply "the credits required to finance production". It may be as well here to extend the illustration by including the P.O.S.B. in the term "trading bank system" (the heart) and to mention that this system is really part of the arterial industrial system, and also that included in the stream of liquid credit from the Reserve Bank is national dividend cash credit flowing directly from the "heart" to the "capillaries".

We have shown, above, how the precise measure of the total flow of price values on to the retail market can be revealed "at any moment", as required by Douglas's first precept. Obviously that measure, in financial figures, of

course, must be available at the Reserve Bank so that the cash credits required to equate with the collective retail cash prices, which the price values represent, can be calculated. There appears to be no other mechanism by which that extremely important measure can be revealed.

Now, except perhaps during a war, or after some great national calamity necessitating vast replacement of capital goods, the sum of retail price values created in any period is always much greater than the sum of wages-salaries- dividends distributed in the same period in the creation of price values. And so to obtain the correct figure of the disparity of cash credits all that is needed is to pose the figure of collective wages-salaries-industrial dividends against the figure of the total prices which has been recorded. The computation may be stated thus :-

> The sum of retailers' costs in any fixed period is the sum of trading bank loans to retailers (L). If we subtract from that sum the totality of wages, salaries and dividends (W) distributed in the same period by industry as a whole in its creation of price values we have the figure for the "gap" (G).
>
> $$L - W = G$$
>
> The symbol L is the equivalent of Douglas's A + B, and W is the equivalent of his A (A + B theorem).
>
> L equals each of the following :-
> Total cost of production.
> The sum of interest-free Reserve Bank loans to trading banks in respect of retailers' requirements.
> The sum of interest-free trading bank loans to retailers.
> The sum of retailers' cost prices.
> The sum of retailers' cash prices.

The financial figure of each of these items is the same. It will be noted that in that figure the items of interest charges and profit are eliminated from the retailers' price making. He sells his goods at a collective price which does not include interest charge and profit;

that price is the just cash price. The retailer gets his agreed percentage of profit credited to his own personal account every time he repays his interest-free bank advances; the amount of his profit would, of course, entirely depend upon his own initiative, and turnover. Correction of the deficits in the trading banks resulting from their payments of profits to retailers, and also in regard to their own remuneration for their services to retailers, would be merely a matter of adjusting balances between the trading banks and the Reserve Bank. The sum required to be paid out by the Reserve Bank on account of these two items, being cash credit, would, of course, be added to the sum of W, or A according to Douglas.

Retailer profit and bank interest charge (both "B" charges) would be included in any measure of the Just Price or Retail Price Discount that was above the sum of these two items, and so, in such case or if they exactly equalled that measure, they would be a direct charge on the Reserve Bank.

It was mentioned earlier that interest-free advances to retailers had an important bearing on the cancellation of cash credits. To clarify this, it should be noted that if bank interest charge and profit were to be included in the retailer's cash prices the situation would be that cash credit to the amount of the two items would be transferred from consumers to retailers and to the banks, and so cash credits of that amount would not be "cancelled on the purchase of goods for consumption" as Douglas in his first precept lays it down that they "shall be". Cash credit of that amount would be employed to purchase at least twice its figure value of goods.

THE JUST PRICE

A retail price discount that was greater than would cover the combined amounts of retailer profit and bank charges in respect of their services to retailers would not be just. To increase the discount more than that would be an avoidable injustice, those on the larger incomes, by their purchases of more and expensive goods, which they could afford, getting a proportionally larger share of the

sum available for "bridging the gap" than those on lower incomes. It is not difficult to visualise the political consequences of, say, a 25% retail discount, a percentage that would be well above that which the two items we are discussing would represent. Imagine what the trade unions representing the £10-a-weekers, benefiting through their purchases by £2. 10. 0 a week, would have to say about the £50-a-weekers benefiting to the tune of £12. 10. 0 a week, which is equal to the total weekly income of the former! I rather fancy that the great majority of people would prefer to "take the cash, and let the (discount) credit go".

The operation of the Social Credit retail price discount does not involve price fixing, and it should be realised that it cannot in itself control retail prices. Such control must be associated with a definite factor in the costing process, and that factor is retailer profit. With the removal of that factor from the retailer's price making and its transference away from the point of sale to an agreed percentage of profit on his turnover, payable to him at his trading bank on repayment of his credit advances, there would be no possibility of price inflation. More could be said with regard to the details of that mechanism (involving restoration of money in respect of depreciation of capital assets, not dealt with here) which, while permitting the retailer considerable elasticity in his price making, would effectively maintain a stable price level.

CASH CREDIT

Cash credit is the vehicle of consumer purchasing power. Under Social Credit, when the "vehicle" spends its purchasing power in purchasing goods from a shopkeeper it is not now called Cash Credit -- that name has been cancelled. Nor is it called Retailer Credit, or Producer Credit, or even Bank Credit; it does not in fact represent any individual's title to credit; it does not represent any individual's claim to goods and services; it no longer conveys any kind of purchasing power at all; it is, indeed, part of the community's revolving fund of liquid credit, a fund in which every member of the community holds a single, non-transferable, share.

Our "vehicle" is now called, simply, Financial Credit, defined by Douglas as "a sort of reflection of Real Credit in figures".

Now, if retailers' total running costs are financed through the trading banks by new credit advances originating in the Reserve Bank, and that total equals the sum of collective cash prices, it should be clear that the financial figure equivalent of all cash credit, that is of wages, salaries, industrial dividends and national dividend cash credit, which together would equal the sum of retailers' cash prices, must, when spent in retail purchases, be returned to source, that is the General Credit in the Reserve Bank by the repayment of these advances. For the time being, while he holds his sales takings, the retailer is custodian of an equivalent amount of the community's financial credit; when he pays his sales takings into his overdraft account their figure equivalent of cancelled cash credit is withdrawn from circulation in the community. And so our "vehicle" after spending, and so extinguishing, its packet of purchasing power in a retail shop, is taken by the retailer straight to his trading bank, whereby he repays his debt, and he collects his legitimate profit. The trading bank now "takes the wheel" and drives the "vehicle" to the Reserve Bank, its main depot, where, aggregated with other deposits, it can again be apportioned, as required by the trading banks, to finance production, and also, as required by consumers, to finance consumption. Imagine the amusement of shareholders if some Rip Van Winkle economist insisted that their revolving fund should be destroyed on repayment of loans from it!

SCHEME FOR NEW ZEALAND

In his scheme for New Zealand, Major Douglas advocates the establishment of the basis of a revolving fund by monetising the value of the "enormous" assets undisclosed in the balance sheets of trading banks and insurance companies, and allotting the sum monetised as shares in public issues of debenture or preference stocks to every New Zealander over 21, "thus providing those individuals with the beginnings of a dividend share in all undertakings without having taxed anybody to provide the

purchasing power". That procedure would break the power of monetisation of real wealth held by certain institutions as Douglas intended it to do.

It is easy to see how the basis of a revolving fund established as outlined by Douglas, or a similar one devised by other means, perhaps less embarrassing!, could, within a short period, be expanded to a figure that would be sufficient to provide for the entire financial requirements of New Zealand, and a "dividend share" to every member of the community.

From a certain date, which could be the date of allotment of the shares, all monies returned to the trading banks in repayment of loans would be transferred to an aggregate account in the Reserve Bank. Also, from that date, all credit facilities required by the trading banks to finance production would be obtained by them only from the Reserve Bank. Employing electronic recording contrivances they would get these credits simply by "pushing a button", and interest-free. As water is drawn from the ocean and must return thereto, so also, of course, would return the credits drawn from the Reserve Bank. By adopting these procedures we would decentralise control of credit and vest beneficial ownership of credit in the individual; we would implement Social Credit basic financial policy which states :-

"We will secure to the people the ownership and use of their own credit".

INCREASING THE MONEY SUPPLY

One other important factor must be mentioned concerning new credits relating to new production. Increase in the volume of money, that is of the community's revolving fund of liquid credit (its life-blood) would derive, as required, only from the monetising by the Treasury of the community's Capital Account, the price value of which represents the money valuation of all capital assets, public and private, in New Zealand -- "No distinction between public and private property" (see "Draft Social Credit Scheme for Scotland": Douglas). The procedure is, simply, that non-liquid credit becomes liquid credit, and the increase would be deposited by the Treasury as a credit to the community in the Reserve Bank. The amount of the increase would be determined solely by the increase in the ratio of A + B to A or, narrowing the formula to a more specific expression, of L to W, that is of bank advances to retailers to the sum of wages-salaries-industrial dividends distributed. It must be emphasised in this matter of increasing the community's money supply that we have to dispense completely with arbitrary decisions, such, for instance, as might be influenced by the state of a banker's liver, or by the width of his grin. We have to deal purely with financial figures. We live in an electronic age, and it has been shown that the precisely exact financial figure required to increase the community's money supply would be revealed by the most efficient and impartial National Credit Authority it is possible to imagine -- an electronic tabulator and computer in the Reserve Bank. "BANKERS AS AT PRESENT UNDERSTOOD WILL BE REPLACED".

One of the most impressive passages in Douglas's writings weightily stresses the prime importance of arithmetical factors in a financial system. As it presents his views on some other matters that are pertinent to the present discussion it is worth quoting in full. It is from "Monopoly of Credit": pp. 87-88.

"If civilisation is not to disappear altogether, there will within a comparatively short period of time arise a situation in which bankers as at present understood will be replaced. It seems important to recognise that when this situation does arise it will be just as easy to inaugurate a financial system which will meet all the necessities of a modern civilisation, as to introduce piecemeal reforms. Here again there is much evidence of inability to think clearly on the matter. Numbers of well disposed people recognise the implacable hostility with which effective proposals are met, and are tempted to say in effect "we cannot do the right thing, let us at any rate do something". Although it seems difficult to obtain general understanding of it, fundamentally a financial system is a matter of pure arithmetic, and the results which will be obtained depend entirely upon the arithmetical factors which are employed

and only to a very temporary extent on the particular brand of black magic which is superimposed. Whatever may be the case in other matters, compromise in arithmetic seems singularly out of place, and it is much better that the present defective system should be allowed to discredit its upholders, and so render genuine reconstruction possible, than that an alternative, of which the effects are not sufficiently beneficial as to place it at once in an impregnable position, should be substituted for it".

The actually new money, brought into existence by monetising the community's Capital Account, would be given to the people as an increase in their national dividend. The increase would merge with the circulating "blood-stream" in a similar manner by which additional red blood corpuscles in a growing child are distributed. It is a remarkable coincidence, strengthening this analogy, that the red corpuscles of human blood are coin-shaped -- 5,000,000 of them to a cubic millimetre, a liberal currency! Further to the analogy, and incidentally in harmony with Social Credit philosophy, the additional corpuscles are produced not to compel expansion of growth but in response to the nutritional demands of new growth that has already been produced.

An all too prevalent misconception of Social Credit method of adding to the community's money supply is that, instead of the money being simply given to the people as an increase in their national dividend, it should be "spent into existence" by financing the construction of debt-free public works. It seems that the consequences of that procedure have not been considered by those who propose it. They enthuse that we would have public assets free of debt. If that means anything at all it is that a public work, a State hydro-electric station for instance, would have no depreciation cost and no interest cost to include in its prices. A moment's reflection should reveal that this would create havoc in the price structure, and that it would be disastrously unfair to competitive private power and fuel producing businesses, which must include depreciation and interest cost in the prices of their products.

Douglas did not mince his words in condemning that method of increasing the volume of money. In evidence on the Douglas System of Social Credit taken before the Agricultural Committee of the Alberta Legislature (1934) there appears the following question by Premier J. Brownlee and Major Douglas's short and unequivocal answer to it :-

MR. BROWNLEE. "Would you consider that the idea of the Dominion simply issuing new currency for the purpose of building public works is a method of carrying into effect in any way the idea of Social Credit?"

MAJOR DOUGLAS. "It would be absolutely catastrophic."

Further, in "THE SOCIAL CREDITER", December 17th, 1949, Douglas issued "a note of warning against technical inaccuracies which are beginning to reinforce its (Albertan) politics. For instance, the Keynesian fallacy adopted by Mr. Vincent Vickers that 'spending new money into existence' is a cure for the flaw in the price system is being subtly substituted for the application of new money to the reduction of prices at the time of purchase".

Douglas's three precepts are divine commandments in that they are consistent with the laws by which the universe is governed. Their disobedience bears its fruit -- a world in turmoil with fears and jealousies; the economies of all the advanced industrial nations geared to defend by all manner of wasteful means an evil money system the controllers of which, and their sycophants, choose it is "Better to reign in Hell, than serve in Heaven". The survival of mankind depends upon the incorporation of the three precepts in the Constitution of "any country".

Let our objective be a Light guiding our policy steps to its attainment.

160 Wilton Road,
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The foregoing treatise is, in the main, an extension of a discussion presented in my booklet, THE SWANWICK PRECEPTS, published in May, 1959.

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