

SOCIAL DYNAMICS

By Eric D. Butler

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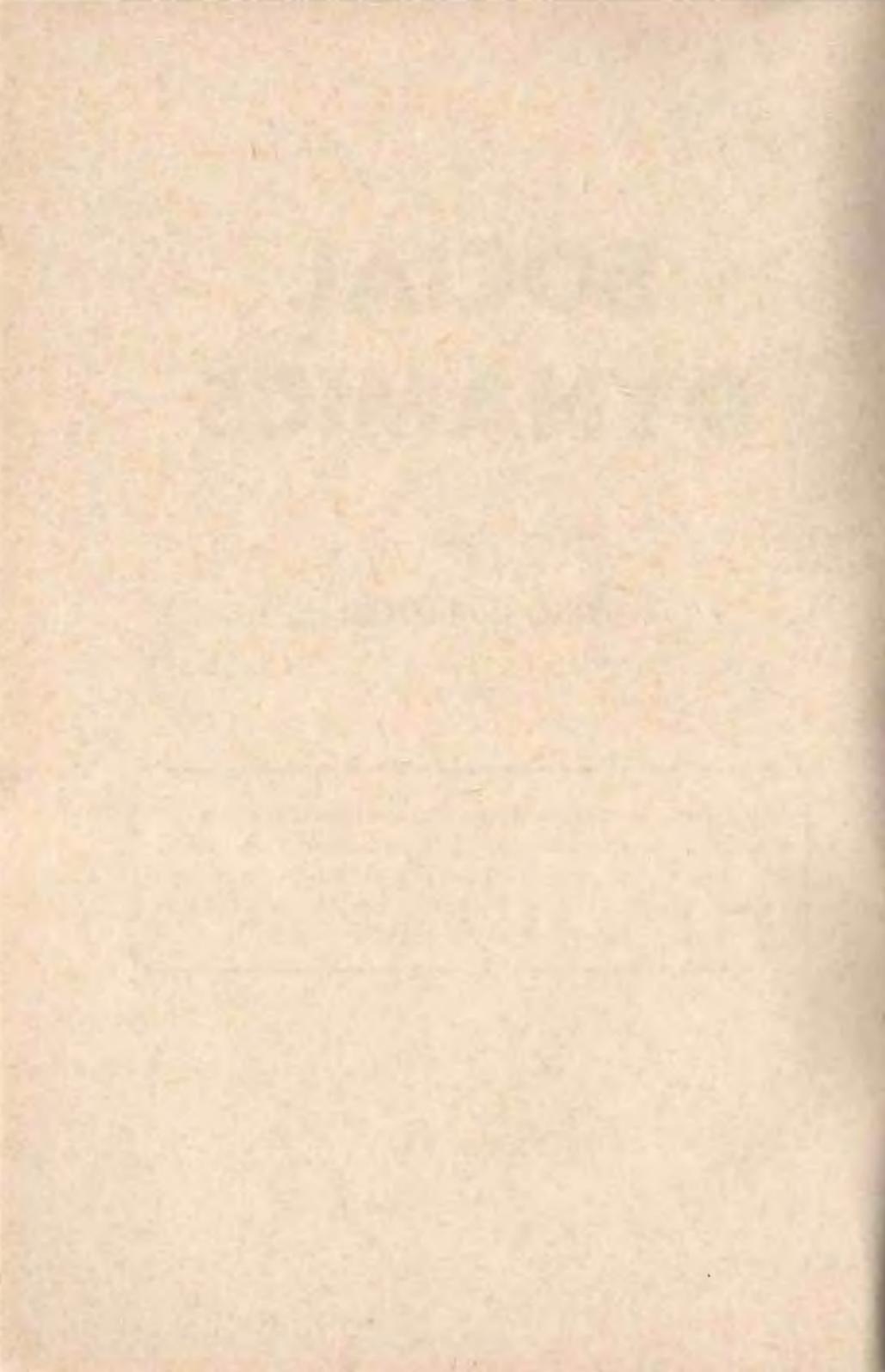
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Social Dynamics is the science of applying social power to social organisations in order that individuals may obtain the results they desire. Social power derives from the belief — faith — that individuals in society can in correct association get what they want.

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LECTURE 1

One of the basic principles of war is the necessity to secure a firmly-established base. The Free World cannot defend itself successfully, still less initiate any type of political, economic or psychological offensive against its enemies, unless it has a stable and secure base. This means nations with stable and successful social institutions. A successful social institution is one which the individual strongly supports because it serves his requirements. An unstable social structure provides Communists and other subversives with the opportunity of eroding the basis of the Free World. Once this erosion proceeds beyond a certain stage, resistance to subversion and policies of destruction becomes almost impossible. An effective Free World defence system therefore requires much more than adequate military defence; it also involves all aspects of the Free World's political, economic, financial, social and constitutional systems. If these systems are being used to impose disruptive policies in a society, then it is the task of the trained Social Engineer to show his fellows how they can act to have these policies replaced by those which result in individual satisfaction and stability.

Policies Rooted In Philosophies

Before we can study any type of policy, irrespective of whether it be political, economic or financial, it is first essential to understand that all policies stem from philosophies. It is interesting to note that the words policy, politics and police have a common root, each stemming from the word "power". "Policy" might therefore be described as the purpose to which power is directed. The question of the purposes to which power might be directed, and whether the individual should have real independence to make choices concerning the

use of power, goes right to the very core of the problem of the individual living in society. How power should be used involves the question of philosophy. An individual's philosophy is what he believes, his conception of reality, what he believes about the nature of man, his purpose, his relationship to his fellow man and the Universe. An individual's policies stem from what he believes. "By their fruits ye shall know them." We judge a man's philosophy of life by his actions—his policies—not necessarily by his words. Satisfactory policies are those rooted in a philosophy of truth, of realism. An unrealistic philosophy, one which is a faulty conception of truth, gives rise to unrealistic and unsatisfactory policies. It is still impossible to get figs from thistles.

The following simple example demonstrates the relationship of policy to philosophy: If a person crossing a street believes that the street is free of all traffic, then he proceeds to cross confident that he may do so safely. His policy is based upon the situation **as he sees it**. But should his concept of the situation be faulty, and he has not seen a fast-moving car, then his policy will bring him into violent conflict with reality **as it is**. So many of man's policies today are producing disastrous results that it is clear that they are rooted in a false philosophy. Much of the major causes of the failure to grasp a clearer concept of reality, is the result of materialism, one feature of which is to insist that human life consists of purely material factors. There is much loose talk about "the age of reason", and an insistence that man's problems can be solved through logic. But logic is like a slide-rule. It can only provide the total of all the factors fed into it. If some vital factors are left out, then the answer will be faulty. Planners of all types, including the Communists, ignore the spiritual nature of man, and are superbly confident that because they can produce

in their heads a most carefully devised plan, then it should work. We have the example of planners advocating the "reconstruction" of rural communities in the West arguing that the basic cause of the failure of collectivized farming in the Soviet Union was not this concept of "scientific" farming, but the "stupidity of the backward, superstitious peasants". The planners ignored the reality of people with such a deep "feel" for their own soil, for a particular way of life, that they prefer death to relinquishing it voluntarily.

Most of the arguments concerning politics, economic, finance and associated subjects are futile because those arguing usually do so from fundamentally different points of view. And even though two people use the same terms, this does not necessarily mean that they have the same concept of reality. Socialists speak about "democracy" and "freedom", but a little questioning soon reveals that they usually mean the very opposite of what those terms mean to others. Confusion arises out of looking too closely at labels, **instead of the reality behind the labels**. If an individual swallows a pink powder known as strychnine, the results will be disastrous even though the bottle containing the powder is labelled "icing sugar". Conflicts between groups does not always mean that they hold diametrically opposed viewpoints or philosophies. After the Second World War a large number of Nazis (Nationalist Socialist) officials had no difficulty in becoming officials in the East German Communist regime. The explanation is simple: the basic philosophy of the National Socialists, their viewpoint concerning the relationship of the individual to the State, and the use of power, was similar to that of the Communists. An individual who believes in the centralized planning of individuals may describe himself as an anti-Communist. But his philosophy is that of the Commun-

ists. Reality is not affected by words, or by abstract theories bearing no relationship to reality. If the word "gravitation" had never been known, this would have no bearing whatever on what happens when an individual falls from a height.

The Philosophy Of Totalitarianism

Broadly speaking, there are two philosophies in the world, and because these two philosophies are diametrically opposed to each other, they give rise to conflicting policies. The first philosophy, and one which has gained increasing acceptance under a variety of labels, is that which conceives of all power arising from a point outside, or **EXTERNAL**, to the individual. The individual is regarded merely as the instrument of power wielded by someone else. This is the essence of all forms of totalitarianism. This philosophy automatically gives rise to policies which necessitate a certain type of organization to **impose** them upon individuals who in the nature of things resist them. This philosophy leads to the conception of individuals as "masses", statistics, so much raw material to be planned by those claiming superior knowledge of what is best for the individual. In many cases those claiming to know what is best for their fellows present a picture of "sincere idealists". But behind this picture is the inescapable reality: they are the Utopians who wish to force all other individuals to accept their particular brand of Utopia. They distrust their fellow human being to be able to evolve his own particular Utopia. And because they distrust him, they must have sufficient power to control him—"for his own good"; of course! This philosophy has been primarily responsible for the growing evidence of collapse, confusion and friction inside the Free World. It has resulted in the individual being progressively subordinated to the power of those speaking in the name of the State, the

group, or some other system. It should be carefully noted that man is not threatened by systems. Like nuclear weapons, systems cannot threaten anyone. It is those who threaten to use nuclear weapons, who do use systems to exercise power over others, who are the threat. What we have to fear is some men exercising irresponsible power over other men. The nature of man has not changed very much over thousands of years. Under given circumstances he can always be relied upon to act in the same way. The lessons of history dramatically confirm the fundamental law enunciated by the great British historian and philosopher, Lord Acton, who said that all power tends to corrupt, and absolute power corrupts absolutely. Centralized power in the hands of the few means little or no power in the hands of the many. Centralized power not only tends to corrupt those exercising it; it also has a corrupting, a degrading, influence on those who become the passive creatures of power used by others. In the absence of power, they cannot freely fashion their own policies. Christian theologians observe that the famous New Testament incident when the Son of God was taken up on to the high mountain and tempted with complete power, demonstrates that God Himself rejected the concept of complete power. The lesson was that the individual must be left to make free choices, **and to accept the personal responsibility for the choices made.** Only in this way can the individual make real progress, which is moral progress. This means organic growth as opposed to rigid and sterile planning.

The philosophy of centralized power always produces the same destructive results. It is a false philosophy because it conflicts with reality, one important aspect of which is the nature of individuals. The inevitable result is more and more compulsion, even if the policies of compulsion are made more sophisticated, and the

individual subjected to intense propaganda in an endeavour to persuade him that while he may not like what is happening, it is all part of an "inevitable trend".

The Philosophy Of Freedom

The alternative philosophy conceives of all power arising from WITHIN the individual. "The Kingdom of God is within ye". This philosophy conceives of the individual possessing both the intelligence and the free will to seek out, to discover the laws governing the universe, the principles necessary for satisfactory human associations, and then to apply what is discovered. The individual is seen as possessing the attribute of creative initiative, and the capacity for self-development. Through self-development in different spheres the individual spiritualizes his life. The second philosophy conceives of the individual as having certain inviolable rights, which cannot be taken from him by either "the State" or "majorities". The right to life is the most fundamental right. Because of the importance which this philosophy attaches to the right of the individual to self-development, it naturally stresses that institutions and systems exist to serve the individual. "The Sabbath was made for man, and not man for the Sabbath". It was the coming of the explosive Christian revelation which resulted in the progressive freeing of the individual from the domination of the group.

Christianity stressed the **uniqueness** of each individual, resulting in a much more highly developed concept of personal dignity and worth, while the fundamental Christian law of love provided man with a new concept of living together and of minimizing the corrupting threat of power. So far from being a piece of sentimentalism, the great Christian Commandment enunciated a fundamental principle for successful co-operation between individuals in society. The modern pseudo-intellectuals

sneer at the Law of Love because it cannot be measured "scientifically". But the fruits of the application of the law were to be seen in the flowering of Western Civilization—chivalry, culture, the concept of the **gentleman**, ethical standards in man's conduct. True, the **ideal** was never completely fulfilled. But it did exist and large numbers at least strove towards it. Even wars were fought with some reference to the ideal. Civilians were respected. "Total war" was a return to barbarism.

But the truths governing the Universe existed from the beginning of time, and what is termed Natural Law philosophy preceded Christianity. The early Christian philosophers like Thomas Aquinas borrowed heavily from the early Greek and Roman philosophers. The great Roman, Cicero, provided the following clear exposition of Natural Law philosophy in his book, *De Republica*, published in 43 B.C.:

"True law is right reason in agreement with nature. It is of universal application, unchanging, everlasting . . . We cannot be freed from it by Senate or people . . . The law is not one thing at Rome and another at Athens, but is eternal and immutable, valid for all nations and for all times. God is the author of it, its promulgator, and its enforcing judge. Whoever is disobedient to it is abandoning his true self and denying his own nature."

In his famous classic, *Man, The Unknown*, Alex Carrel wrote that man has been the victim of "a **disastrous illusion—the illusion of our ability to emancipate ourselves from natural laws. We have forgotten that nature never forgives. In order to endure, society, as well as individuals, should conform to the laws of life.**" Those who accept this type of philosophy reject the concept of man being a law unto himself, his own God. With proper humility, they accept the truth that the rules of the Universe transcend human thinking, cannot be altered,

and therefore should be carefully observed and obeyed in order to produce harmony in society.

The Natural Law and Christian philosophy found expression in perhaps its highest form in the type of social structure and institutions evolved by the British and taken to other parts of the world, including the United States of America. The essence of the policies developed was decentralization of power, with emphasis on voluntary co-operation and the acceptance of **self-discipline** as opposed to imposed discipline and regimentation. To the extent that policies of decentralization were developed, there was satisfaction through both diversity and harmony. As these policies have been replaced with those rooted in the philosophy of totalitarianism, there has been increasing friction and dissatisfaction. There will be further friction and more disasters if these policies are persisted with. This can be predicted with complete certainty.

Policy And Administration

Most of man's policies, the results he desires, can only be obtained through organisation. Organisation involves what is termed administration. The specification of results is termed policy making, and policy making is the correct function of individuals in a genuine democracy. But while individuals are competent to express their desires concerning the results they want, they are not necessarily competent to express opinions on matters of administration, on how best to obtain the results desired. Women are the greatest authorities on the type of shoes they want to wear, but they are not authorities on the best way to run shoe manufacturing factories. The individuals of a community can be united in wanting roads without more than a few of them knowing anything about road-making. Their political representatives are not experts on roadmaking either, but they can engage engineers who

are experts. Real democracy is concerned with formulating policy and directing appropriate experts to devise the ways and means of implementing policy. The experts are made personally responsible. In a genuine democracy, with power concerning policy making in the hands of the individual members of the community, experts are "on tap, not on top". They are left free to devise the most efficient methods of implementing policy, and are held personally responsible. Only by proper division between policy and administration, between ends and means, is real democracy possible. The Socialist concept of "democratic administration of industry" is about as realistic as talking about the members of a sports team having a committee meeting every few minutes to decide what is to be done next. Once the game is under way, the captain is in charge. There can be consultation, but in the last analysis the captain makes the decisions. The same applies in industry.

The democratic form of organisation can be visualised diagrammatically as a circle, the circumference representing individuals with the necessary power to make decisions concerning policy making in different spheres. The centre of the circle represents the administration, staffed by individuals accepting the responsibility of devising the best ways and means of obtaining policies required. By virtue of their position individuals decide on results whether or not the administrators remain at the central position of responsibility. For efficient administration a different type of organisational structure is necessary. This can be shown diagrammatically as a pyramid. In this type of organisation supreme authority at the top imposes its will and decisions on the whole structure through a series of subordinate authorities. If administration is left to those persons best qualified, then administrators must be placed in positions of complete authority **so long as**

they provide the policy makers with what they want. Effective control of policy requires that individuals, considered as electors, consumers, or members of any type of sporting or cultural organisation, have the power to discipline administrators if they are failing to produce the results desired and specified.

Successful Associations Must Reflect Truth

All organisation has to do with the association of individuals. Just as certain principles govern the associations necessary for bridge building, so do principles govern associations necessary to achieve political, economic, financial or other objectives. The principles governing bridge building have been discovered and tested over a long period of time. Each new generation of engineers inherits knowledge from the past. They know that to build successful bridges they must adhere rigidly to principles which cannot in the nature of things be altered. Those who insist that there are unchanging absolutes which can only be ignored at great danger, are often charged with being "extremists". The original dictionary meaning of extremism is the taking of painstaking care. All those who travel in aeroplanes feel much more at ease when they realise that "extremists" have built their planes; men who have carefully built the planes in accordance with the natural laws governing the flying of planes, including the use of materials in the correct association which will withstand stresses and strains. If planes were built by men in accordance with theories which they thought **ought** to be satisfactory, merely because they had thought them up, there would be plenty of disasters.

The principles governing human associations have been tested and observed over many thousands of years. Tradition is, in part, the accumulated wisdom of the past. The attack on tradition tends to cut man off from a knowledge of those fundamental truths essential for an under-

standing of principles of human association essential for satisfactory results. The major constant in human history has been human nature, which contrary to the theories of the various schools of idealists, has changed very little, if at all. A study of the collapse of the Roman Civilisation reveals many disturbing similarities to what is happening today, including heavy taxation and monetary inflation. The many theories of the "scientifically" planned State could only have a chance of working if human beings were less than human—perhaps like ants. The fundamental nature of humans being what it is, it can be predicted with certainty what will happen under given conditions. The individual reacts very much differently in a big crowd, stimulated by the spectacle of a thrilling game, or the oratory of a demagogue, than he does in a small group. The bigger and more concentrated a group becomes, the more it becomes a mob in which the individual loses control of himself. The more the individual is organised into big, centralised groups, the further down the scale of existence he is driven, losing his most divine attribute, creative initiative. The Communists and other totalitarians are experts in the art of creating and using mobs for revolutionary purposes.

The lessons of history teach that the concentration of power into few hands invariably tends to produce corruption. The bigger and more highly centralised any human association becomes, the fiercer becomes the struggle for place and power, the greatest intensity being near the top. The worst, not the best, features of man are manifest. No sophisticated theorising can alter this truth. The realist faces the truth about man and seeks to ensure that human associations are based on principles which when applied produce the most satisfactory results in terms of human satisfaction.

Why do individuals associate? Because they desire to gain benefits which would be impossible or very difficult for them to attain if they worked for them separately. The conviction, the faith, that by association they can gain the results they desire, brings individuals together as a group, co-operating to a pre-determined end. The starting point for association is the belief that the individuals can obtain benefits from association; that there is an increment of association, a profit. To the degree that the individuals forming an association are convinced that they are attaining the benefits for which they are associating, the association will function vigorously. It will be successful. But if individuals find that their associations are not producing desired results, they lose their faith and the association starts to disintegrate. Successful organisation cannot be a haphazard affair. A study of the principles of organisation are therefore absolutely essential for the social engineer. Organisation for playing games provides an example of the principles of successful human association.

A group of people decide that they would like to play golf. The first necessity is the formation of a golf club. The creation of the club is not for the purpose of having a club, but to enable the individual to achieve in the correct association what would be impossible on his own. After agreeing to form the club, the next step is to make rules for the club. These rules are a constitution, laying down in advance such matters as members' rights, how the committee shall be elected, how the committee shall be controlled, and similar matters. The committee is elected by the members for the general task of ensuring that the policy of the members is carried into effect. **The committee is the servant of the club's members.** It ensures that the appropriate experts are engaged to ensure that adequate facilities are

provided for the playing of golf and for the social amenities such as a club house. The money required for these activities is voted by the members of the club. Within the framework of the club organisation and its rules, including of course the rules governing the actual playing of golf, the individual members are free to act in accordance with their inclinations. There is no compulsion that all individuals must play so many hours every day. The business man can treat golf as a form of relaxation and a means of obtaining exercise. The women members can treat it as a form of social activity. Those who are really keen on improving their golf, either for self-satisfaction or for competitive reasons, can apply themselves to practising much more diligently than others. So long as the committee ensures that the club is running smoothly, individual members spend little time concerning themselves about the committee. It is important to stress that associations like a golf club are not only governed by rules, including the rules for the actual golf playing, but by an ethic. The well-known British statement, "Play the game", is a manifestation of an ethical concept; that trying to take an unfair advantage of an opponent is "unsporting". Successful associations therefore require something more than rules; they require that individual members treat one another as persons entitled to respect and dignity.

The major feature of a successful organisation is the correct relationship between the individual members and their committee representatives. Imagine what would happen if upon arriving to play golf one day, members were informed by the committee that they, by virtue of their superior wisdom, had come to the conclusion that all members would obtain much more benefit from playing baseball, and that they were going to insist upon this! The members could do one of two things: they

could either make use of the club's constitutional provisions to call a special meeting of members to vote the committee out, or, presuming that this was too difficult, they could contract out of the club, automatically bringing it to an end. **The right of the individual is to contract-out out of an association which no longer serves his requirements, is the most effective means available to the individual to protect himself against power-lusters seeking to use his associations against him.**

Associations, like systems, exist to serve individuals. Most attacks on the individual are camouflaged by appeals to the "national good" the supremacy of the State, or similar abstractions. The "national good" is only a reality when the **individual** is obtaining satisfaction through that complex form of association termed society. Demands that the individual sacrifice for "the good of the State" usually means that the individual surrenders more control over his own life to the all-powerful officials who are in reality the State, as the victims of Communist governments are so painfully aware.

The Basis Of Real Freedom

The growth of a civilisation is the development of many different forms of human associations through which the individual has been able to do things which were impossible for his fore-fathers. It is true that man does not live by bread alone, but self-development by man is only possible when he has freed himself from the necessity of spending nearly all his time and energy on obtaining the bread of life. It is unrealistic to talk about cultural and spiritual development unless the individual has sufficient free time from the necessity of obtaining the food, clothing and shelter to sustain life. The basic essential of real freedom is economic freedom. Primitive natives have little real freedom because nearly all their energies are applied to obtaining sufficient food

to keeping themselves alive. Early in man's history he was generally a nomad. His first associations were into tribes, but they had to continue moving their flocks and herds to where the food supplies were growing naturally. The development of civilisation really dates from the time when man found that a secure supply of food was possible in one area by the growing of crops. The whole basis of man's development changed dramatically. The growth of stable societies, increasing the time available to individuals to devote to reflection and culture in its many forms, resulted in the development of social institutions necessary in the changing circumstances. Increasing free time resulted in man improving the simple tools he was evolving, and in discovering new sources of energy other than his own and that of his domesticated animals. By applying the correct principles of association, wind could be used either to drive wind mills to grind corn or to move ships across the seas. Running water could also be used to drive simple machinery. But although man was steadily increasing his productive capacity, he was still limited by the energy at his disposal. He could not use it at will. When the wind died down, his sails drooped motionless and his mills stopped turning. When the water stopped running, his water wheels stopped turning.

It was just over two centuries ago, in 1765, that man took a momentous step forward in harnessing energy to his use, and revolutionised the whole basis of his civilisation, when James Watt devised a means of making practical use of the steam engine. The latent energy in coal, originally derived from the supply of energy provided by the sun, was now harnessed at will by man, and the Industrial Revolution developed. The greatly improved methods of using solar energy through highly sophisticated machinery have dramatically changed the whole basis

of social life. But they have not changed the fundamental principles governing human association. However, they have created a world in which there is desperate need for an understanding of the application of the principles of successful association if civilisation is to avoid a major disaster. The fact that man has at his disposal unlimited sources of energy compared with his forebears in previous civilisations, does not mean that this will of itself enable him to avert the disasters which the historians state have overtaken some 20 civilisations. The misuse of enormous energy through incorrect principles of association can only result in greater disasters than any experienced in the past.

Society—A Complex Association

Society is a complex form of association which can only work satisfactorily so long as its individual members believe they are obtaining benefits from it. It is obvious that in all the Western nations there is, in spite of tremendous technological advances, growing individual dissatisfaction, these expressing themselves in different ways, some of them violent. There is not only conflict within societies, but conflict between societies. Those societies organised under Communist domination are clearly violating the principles of satisfactory association to the point where millions would contract out of their associations—if they could. Berlin Walls and Iron Curtains are attempts to prevent the victims of perverted associations from destroying them by moving to other associations which, as yet, are not as perverted as those under Communism. In their strategy for complete world power, the Communists are relying upon non-Communist societies progressively disintegrating from within. The Communists can only foster this disintegration because members of the non-Communist societies are increasingly ignoring the principles for successful association.

Society can be divided broadly into three main spheres, even though there is a close meshing of activities between these spheres. These three spheres are the Economic, Political, and Cultural. Originally derived from the Greeks, the term economics means social house-keeping. Economics have to do with providing man's material requirements, with the "bread-and-butter" side of life. It is in the economic sphere that man associates to provide food, clothing, shelter and services—services being the general term covering such benefits of communal activity as transport, sanitation, water supplies and roads. If systems exist to serve individuals, and not individuals to serve systems (**which means serving those controlling the system**), then the **primary** purpose of the economic system is to provide the individual with the results he wants in order of his priorities. The economic system is not an instrument of government, something to be used to control the individual. The persistent claim that the economic system exists to provide "full employment" is a perversion of means into ends. The scientist and the engineer has been striving for thousands of years to lift the "curse of Adam" from the back of man to that of the solar-powered machine. What is meant by "full employment" is that the individual should work **as directed**. The Socialists of all types openly advocate this policy, which runs contrary to man's persistent efforts over the centuries to reduce the amount of time necessary to provide himself with the basic requirements of life so that he could develop himself through other forms of voluntary activity.

Experience has demonstrated that the only economic system which can really serve the individual, is one where free enterprise competes to provide the individual, with what he wants. The individual consumer exercises control through his "money vote". The "money vote" is the most flexible form of voting ever devised by man. It

permits the individual consumer to "vote" for the goods and services he requires, to penalise those producers whose goods and services he does not want. A genuine economic democracy, that is, consumer control of production, is only possible when (a) the individual has adequate "money votes" to obtain from his economic associations the results he wants, and (b) there is genuine competition. All policies of monopoly tend to undermine economic democracy. Monopoly exists where the individual does not have a genuine alternative. Socialist-inspired propaganda has convinced many people that the free-enterprise system, based upon what is claimed to be the "wicked profit motive", inevitably leads to monopoly. A clever but misleading propaganda argument is that the profit motive must be replaced with the "service motive".

Profit can be best defined as the result which accrues to individuals when they make the proper associations. When a seed is planted in fertile soil, and there is sufficient sun and water, the unseen forces of nature operate and, for example, a fruit tree results, a tree from which a harvest can be taken every year. One grain of wheat produces a hundred grains. The difference between a man's effort and the ultimate result he obtains can be termed profit. When the proper associations are made in the free enterprise system of production and distribution, a financial profit is made. It is the inducement of the financial profit which stimulates manufacturers to make the goods which they believe consumers desire. There is no irreconcilable antagonism between profit and service. It is obvious that no profit can be made unless first a service is given. It is only when the farmer has gathered his real profit in the form of his grains of wheat or other products that he can give service to the community. The manufacturer must produce goods before he can make a profit. The best products of civilisation have

been the result of the "profit motive". Unless insane, no individual does anything without the anticipation of some return, or satisfaction, even if in most cases it is psychological satisfaction. It is only under a system of profit inducement, profits obtained from services rendered, correct relationships established, that that wonderful aspect of man, individual initiative, can be expanded.

Financial profit in a system of free enterprise can be termed an economic calculator. The amount of profit made indicates clearly and automatically what consumers want, and in what order of priority. With the consumer in control of the policy of industry through his "money vote"—or it might even be termed an "order system"—the size of industry will be automatically governed by efficiency and natural competition. The concentration of economic power, the policy of monopoly, now so obvious in both primary as well as secondary industries, is not because mammoth units are genuinely more efficient, but because of the correct function of Government being perverted, as will be demonstrated later.

The Governmental System

No matter whether the society they are associated in is large or small, individuals require, in principle, the equivalent of the committee of a sporting association. Government might be described as a type of general committee essential to help ensure that individuals can live harmoniously together. Stemming from the totalitarian philosophy, there has in recent times been a careful fostering of the Big Brother concept of Government. The traditional British concept of Parliament was that it was **representative** of interests rather than of mere numbers, and that government was like fire: a good servant but a very bad master. Constitutional safeguards were therefore necessary to curb the tendency of all governments

to increase their power. This tendency is a type of natural law. The more highly centralised government becomes, the more difficult it is for individuals to control the government. If governments take over more and more power from the individual, doing things for the individual which in a genuinely free society the individual should do for himself, then it is inevitable that the major part of government progressively becomes a swollen bureaucracy, a type of army of occupation whose top officials become the real policy makers. Politicians are reduced to the role of rubber stamps, legalising what the permanent officials lay down. The perversion of the parliamentary system is being perverted along the lines laid down by the Communists' spiritual bedfellows, the Fabian Socialists.

More and more power is being delegated to the permanent official who makes his own rules and regulations which have the force of law. A former Lord Chief Justice of England, Lord Hewart, very aptly described this as *The New Despotism*.

The development of representative government in the English-speaking world was originally based upon the conception of the individual possessing basic inviolable rights which no government could take away from him. The philosophy underlying this concept is Christian. It is significant that one of the leading figures at the Island of Runnymede, England, when King John was forced to sign the famous Magna Carta, was Bishop Stephen Langton, who insisted that even the King must obey a rule of law rooted in the Christian philosophy. The famous English constitutional authority, Sir William Blackstone, pronounced upon Magna Carta as follows: **"It protected every individual of the nation in the free enjoyment of his life, his liberty, and his property, unless declared forfeited by the judgment of his peers or by the law of the land."**

It was also Blackstone who wrote in 1760 that **"Herein consists the true excellence of the English Government; that all parts of it form a natural check upon each other."** The division of power in the governmental system was developed to prevent the tyranny of government. The concept of a government, once elected, being able to do as it likes unchecked for a number of years, is a modern and totalitarian concept. Under the British constitution, the trinitarian concept of government has been reflected in the House of Commons, the House of Lords as a house of review, and the Crown possessing the right, in a crisis, of exercising a veto and forcing legislation to receive further consideration. The underlying concept of Upper houses is that they help to divide political power and act as Houses of Review.

When the predominantly British population in the American colonies revolted against the British government of the day, they were revolting against a government which was denying traditional principles of British constitutional government. In his *Origins of the American Revolution*, John C. Miller observes: **"In rejecting natural law, Englishmen also denied the colonists' contention that there were metes and bounds to the authority of Parliament. The authority of Parliament was, in their opinion, unlimited: the supremacy of Parliament had come to mean to Englishmen an uncontrolled and uncontrollable authority. Indeed the divine right of kings had been succeeded by the divine right of Parliament . . . It was the refusal of Americans to bow before the new divinity which precipitated the American Revolution."**

A study of the history of how the American Constitution was evolved reveals the thinking of men who knew the lessons of history, and were concerned with attempting to ensure by a carefully framed constitution

that their own governments could not become dictatorships. Every attempt was made, as was the case in Australia when Federation was being formed, that the power of the central Federal Government was limited; that there was a division of power between the States and the Federal Government, with the American Senate acting as one of the counterbalances against the monopoly of power.

Individuals living together in society must have a system of justice governing their relations one with the other. Individual rights must be protected, private property rights, the right to life, the right to walk the streets in safety, protection against libel and slander. Successful human associations are impossible unless these and similar rights are protected. Violations of these rights require an independent judiciary, whose members are really a type of umpire adjudicating impartially. Although governments are responsible for ensuring that there is an independent judiciary, it must be free of all political influence.

One of the major functions of government is to maintain a strict Rule of Law. It is often claimed, falsely, that all law is an infringement on the freedom of the individual. Real freedom is impossible except inside an agreed Rule of Law.

The rule of law means that the individual, as well as government, is bound in all his actions by clearly defined rules announced beforehand. Road laws are a good example of the rule of law. Particularly since the advent of the motor car it has been most essential for road laws, which enable individuals to use a common service, to be designed to protect all individuals. So far from the rule of law concerning the roads being an infringement on the rights of the individual, so long as there is general respect for that rule of law, **it increases the rights of the individual.**

Individuals who insist that they should have the "freedom" to drive how they like on the roads, would produce chaos. The rule of law as applied to the roads lays down that all shall travel on one side of the road, they shall stop at red lights and proceed on green lights. If the motorist violates the rule of the law and is detected by police, then he is penalised. To the extent that motorists obey the rule of law there is the maximum security and freedom for all individuals using the roads. The sole responsibility of government is to produce a rule of law which has the respect of all members of the community. It is certainly not the correct function of government to insist on how individuals shall operate within the rule of law. As one individual has so aptly put it, "within the known rules of the game the individual is free to pursue his personal ends and desires."

Another example of government correctly upholding the rule of law can be studied in the important sphere of weights and measures. The appropriate governments have inspectors whose responsibility it is to ensure that various weights and measures are absolutely correct. It is often said that most of the man's problems would be resolved if there are "changes of heart". But irrespective of the state of mens' hearts, if, for example, a retailer is unconsciously using scales which are faulty, either he is robbing his customers, or they are robbing him. Correct relationships are only possible when the scales are weighing accurately. The rule of law ensures that one gallon of liquid is always exactly the same. Motorists purchase gasoline confident that if they buy eight gallons, they get eight gallons. In the English-speaking world 12 inches always makes one foot in the field of measurement. It is easy to imagine the chaos which would result from a system of measurement which was like a piece of elastic, constantly being stretched.

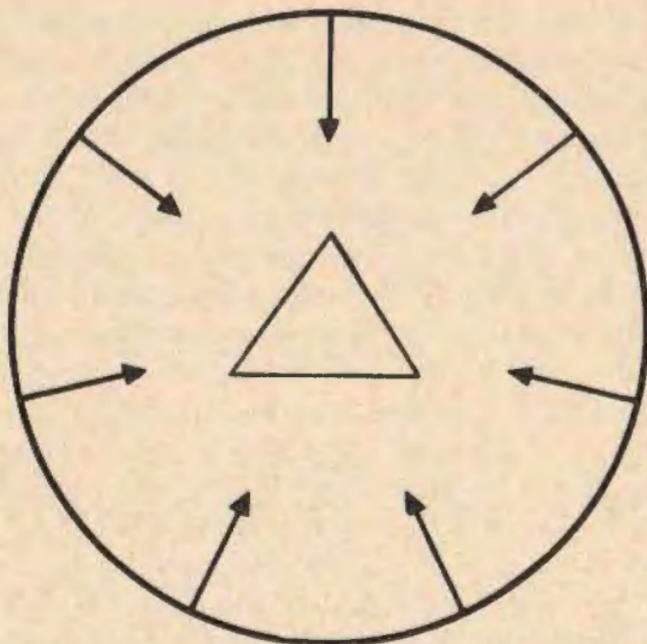
Where government does ensure that the rule of law is strictly upheld, individuals obtain real benefits. But in the all-important sphere of monetary policy, modern governments not only fail to uphold a rule of law, but by their open support of inflationary policies, thus progressively reducing the value of the unity of money, they are endorsing a policy which is eroding the very foundations of the free society. The disastrous results of progressive monetary inflation can be readily seen in all Western nations. They will be studied in some detail later in this course.

Societies also require government to regulate their relationship with other societies. National governments are therefore necessary to deal with what are termed foreign affairs. And they are also logically concerned with the military defence of the society they represent. If governments at all levels were confined to legislating only on the preservation of the Rule of Law in all spheres of man's activities, then individuals in free association could look after themselves. But modern governments are increasingly violating the rule of law. They are like a golf club committee not being content to provide facilities for playing golf, but insisting on telling the individual golfer how he shall play each shot.

The Cultural Division

The third division of society is what might be termed the cultural. In this division there is man's Churches and similar organisations developed to serve man's spiritual needs. There are the numerous arts such as literature and music. And there are man's varied sporting activities. It is in the cultural field that man really strives to develop and fulfil himself. In this field his associations are generally most satisfactory because the correct principles of associa-

tion are observed. There is **voluntary** association for **clearly-defined objectives**. There is effective control of organisation by individual members. Individuals readily submit to the highest form of discipline, which is self-discipline. The basic difference between individuals working in some economic activity which they find quite meaningless and frustrating, and enthusiastically getting knocked in the mud on a playing field, is that in the case of expending energy on a sport which may be much more physically uncomfortable than the industrial activity, they enjoy it because they find some real purpose and enjoyment in it. If the spirit displayed in sport, or similar activities, could be engendered in the field of economic organisation, what a transformation there would be! But the first essential is that economic activities be directly related to genuine individual requirements. This necessitates appropriate action through the governmental system. Political democracy must first be made a reality.



PHILOSOPHY: Man's concept of his own nature and the Universe; his concept of Truth.

POLICY: Action taken to obtain desired results, based upon philosophy. Concrete evidence of that which is unseen.

ADMINISTRATION: The implementation of policy.

As all Policies Are Rooted In Philosophies (Figs Are Not Obtained From Thistles), Conflicting Philosophies Produce Conflicting Policies. ("By Their Fruits Ye Shall Know Them.")

Diagrammatic Expression Of All Power To Decide Policies (Democracy) Decentralised at Circumference of Circle, Exerting Pressure On Centre Where Administration Is Expressed Diagrammatically As A Pyramid.

SOCIETY—A COMPLEX FORM OF ASSOCIATION

Three Major Divisions Of Society

| Economic | Political | Cultural |
|---------------------------------|------------------------------------|------------------------|
| National house-keeping. | Limited Constitutional Government. | Churches. |
| Private ownership. | Decentralised political units. | Cultural activities. |
| Competitive Enterprise. | Division of powers. | Sporting associations. |
| Consumer control of production. | Constitutional safeguards. | |
| The "Money Vote". | Rule of Law. | |
| True profit and dividends. | Justice. Independent Judiciary. | |
| | Police. | |
| | Defence and foreign policy. | |

29 A healthy and successful Society is one which reflects the true nature of man. This can only be expressed through a diversity of interests. This requires a proper balance between man's economic, political and cultural activities.

If industry is to function satisfactorily, the flow of purchasing power to the market place must be equal to the flow of the total prices at the market. But total prices must include (1) interest charges, (2) Capital depreciation, (3) Profits, (4) Reserves, (5) Allocation for taxation, for none of which has purchasing power been distributed. If portion of the wages and salaries is saved to finance other production, this aggravates the deficiency of purchasing power.

Attempts to overcome the deficiency: More debt for capital works, credit-buying schemes, and "export drives". Overall result: Growing mountain of debt, high taxation and inflation, all fostering centralisation of power.

LECTURE 2

It has been observed that economic independence is the basis of real freedom for the individual. Individual freedom for the individual, enabling him to spiritualise it through self-development, is a basic feature of Christian doctrine. Unless able to exercise free will, and be personally responsible for the choices made, the individual cannot rise above the animal level. The Christian God is one of love whose abundant universe offers the life more abundant. But the life more abundant is only possible through the discovery of the truths governing natural laws and their correct application in the production sphere. When the Communist insists that "labour produces all wealth" he is logically expressing his own underlying philosophy. But the great majority of people who call themselves anti-Communists will at the same time agree with the widely accepted view that "labour produces all wealth". They are philosophically confused. The philosophy underlying the doctrine that "labour produces all wealth" logically elevates man into his own God and infers that he alone is responsible for the basis of life, that he is self-sufficient. The truth is rather different.

Economic freedom depends upon productive capacity. And a nation's productive capacity can be described as its **real credit**. The following are irrefutable facts concerning a nation's real credit:

The basis of all wealth is sunshine, solar energy, minerals, including oil, water and the soil. It is self-evident that no individual or group of individuals, produced this wealth. The Christian could put the position as follows: Sunshine, solar energy, water, soil, are a part of God's capital. They were a gift to the human being in the same way that a father gives a property to his son. The fact that some individuals might use an inherited asset,

one towards which they contributed no labour whatever, in a wasteful or immoral manner, is not a legitimate reason for abolishing the **principle** of inheritance. It is simply an argument in favour of developing a greater sense of responsibility and morality in individuals inheriting wealth. Thousands of years of human history have clearly demonstrated that collectivism encourages a far more irresponsible and anti-social attitude towards wealth of any kind than does private personal control.

Not only has the human being inherited the basic capital wealth mentioned; he has also inherited the truths of the Universe. Labour did not create the truth which man has termed the "mechanical advantage". Man **discovered** this truth when he found that by using a log as a lever he could easily lift a weight which he could not even budge with his own musclepower. The mechanical advantage and many other similar truths, provided the very foundations of the modern industrial system. Having been discovered by earlier generations of men, knowledge of these truths, and how to use them, was passed down to succeeding generations. This is called the cultural heritage. It is this cultural heritage, making use of the vast capital resources of the Universe, which has made possible not only higher material standards of living for present generations, but which has made it possible for individuals to have greater time to devote to activities, cultural and otherwise, other than those forced upon them by economic necessity. The development of automation is the end product of the process of using solar energy to power automatic or semi-automatic machinery. The claim that "labour produces all wealth" is not only false; it becomes progressively more false as the cultural heritage is expanded with the result that labour as such is a diminishing factor in production.

A nation's productive capacity, its real credit, is based upon applying discovered natural law truths to basic capital. Once again the importance of establishing correct associations can be seen. There is one further important aspect of the principles of association which has made a vital contribution to a modern nation's real credit. **This is the division of labour.** A simple example demonstrates the principle underlying this type of association: In the early days of nail making, one individual, working on his own, drawing the hot metal into lengths, cutting into required sizes, sharpening a point at one end and creating a head at the other, was perhaps capable of making, say, 50 nails in a day. But when the total process was divided between four individuals, one drawing the metal, one cutting it into lengths, one sharpening points and one creating heads, then the total result was not simply four times 50, 200 nails per day, but an enormous increase on this total. For the sake of demonstration, assume that the total was 300. Clearly the increment of association resulting from four individuals associating in this manner has produced a profit of 100 nails. No logical person can dispute that each of the four nail makers would be entitled to an equal share of their increment of association. The division of labour principle is a major feature of modern production. It is the application of an important natural law.

Two hundred years ago a farmer was hard pushed to farm up to ten acres on his own. Today one farmer can farm hundreds of acres, not because he is capable of more labour than his forebears (he may be less capable) but because his tractor, for example, is a concrete expression of the cultural heritage, embodying "know-how" in bringing metals and other materials into the correct relations, produced on the assembly line (the division of labour) and

powered by oil taken from the earth and transported by the application of the same cultural heritage.

It is a **fact** that as a result of his heritage modern man has an economic basis for an expansion of individual freedom. The problem of producing man's physical requirements has been solved, primarily by the discovery and application of Truth. Why, then, is the individual not gaining full access to his heritage? This question can only be answered by examining the vital role of money in society.

The Creation And Control Of Money

Farmers and businessmen talk frequently about "making money". But this common statement is most misleading. When a farmer grows a bag of potatoes he does not at the same time create a money equivalent. Farmers and businessmen obtain money from someone else in exchange for what they have grown or produced. It is true that some people attempt to make money in the form of notes, but if caught they finish in prison for counterfeiting! Who, then, does make a community's money? How is it made and controlled? A modern economy is controlled almost completely by financial policy. There is practically no barter. All exchanges of goods and services take place through money. No understanding of the problems of an economy, including inflation, is possible without an understanding of the creation and control of money.

The essential feature of any form of money is its acceptability. The psychological factor is all-important. Counterfeited \$20 bills act as money **just so long as they are accepted by those handling them.** Throughout history many different forms of money have been used by different people—shells, different types of stones, metals made into different types of coins, paper money of numerous sizes and types. But so long as people believe that they

can at any time obtain goods and services for any type of money, then they accept it and it acts as money. **Money has no value in itself at all.** A million dollars is useless on a desert island. The first essential in examining the money question is to stop regarding it as an end in itself, to realize that money is a man-made system and that the system can be changed by man. To worship a man-made money system is a form of superstition. It is not money which is the root of all evil, as some maintain, but the **love** of money.

Historical Development

In order to understand the modern money system, an understanding of the history of that system is of great value. Originally the wealth producers of the world issued their own money tickets—generally leather discs—in the same way that railway organizations issue their own tickets. It might be observed in passing that no railway organization permits a train to run half empty with people requiring seats, because insufficient tickets have been printed! Cattle were at one time, and still are in some primitive societies—regarded as the most important form of wealth. It is interesting to note that the Latin word for money is *pecus*, and the use of the modern word pecuniary, provides historical proof of the origin of the earlier form of money.

Instead of the cumbersome method of exchanging cattle for supplies from merchants, a major development took place when leather discs, **representing** the cattle, were issued. It is important to note that the owner of the wealth was issuing the money representing his wealth in the same way that a railway makes its own tickets, but not in the same sense that the farmer of today “makes” money when he says he does. Coming down through history, a new type of money was evolved. Rare metals like gold and silver were regarded as wealth. Those hold-

ing these metals in plate or other forms started to deposit them with the goldsmiths for safe keeping. The goldsmith issued receipts against these deposits. It was not long before the owner of the receipts found it much more convenient to use these receipts to do his business rather than draw his gold or silver out of the goldsmith's safe, pay it to someone else, who would then re-deposit the metals with the goldsmith. The goldsmith's receipts were a great convenience for all. They were the lineal ancestors of the modern bank note. They acted as money because everyone had faith that those holding the receipts could at any time draw gold or silver to the value of the receipts from the goldsmiths. It is important to grasp that now it was the **custodian** of wealth who was creating money, not the owner of the wealth, as was originally the case.

The next major development in the evolution of money took place when some goldsmith observed that his clients left their gold and silver with him indefinitely, and that it would be safe for him to issue more receipts than the wealth deposited with him. It was extremely unlikely that all his receipts would be presented at the one time. What started as a dishonest practice became convention, and the more flexible form of money helped immeasurably with the development of trade and commerce. The goldsmiths were the forerunners of the modern banking system. As will be seen, modern banking is based on the convention that for every dollar of legal tender—money created in the form of notes and coins by Government authority—possessed by the banks, they can create and issue approximately nine dollars of credit money in exactly the same way that the goldsmiths issued more receipts than wealth deposited.

The modern money system has made the modern complex economy possible, and has been a great boon to

man. The fact that it developed by fraudulent practices does not alter this fact. Up until the beginning of the First World War the convention prevailed that bank notes and cheques could be cashed at any bank in exchange for gold sovereigns. There used to be a lot of bank failures when people suddenly decided all at once that they wanted to draw out of the banks the tangible wealth which they had believed was available.

Statements By Banking Authorities

A large number of eminent authorities could be quoted on the subject of the creation of most of a modern community's money supply in the form of financial credit, but the following selection will be sufficient to demonstrate the truth:

As far back as 1882, Professor H. D. McLeod, lecturer on political economy at the University of Cambridge, and the most outstanding authority on banking in Britain at that time, gave his famous lectures on Credit and Banking to the Institute of Bankers of Scotland. The following extracts from the lectures outline the process of credit creation with great clarity:

"The way a Banker trades is this: He sees that £1,000 in cash is sufficient to support £10,000 of liabilities in Credit; consequently he argues that £10,000 in cash will bear liabilities to several times that amount in credit . . . Thus we see that the essential and distinctive feature of a Bank and a Banker is to create and issue Credit payable upon demand; and this Credit is intended to be put into circulation and serve all the purposes of money. **A bank, therefore, is not an office for borrowing and lending money, but it is a manufactory of credit.**" (Emphasis added.)

In his book *Elements of Banking* Professor McLeod wrote: "When it is said that a great London Joint Stock bank has perhaps £25,000,000 of deposits, it is almost

universally believed that it had £25,000,000 of actual money to 'lend out' as it is erroneously called . . . It is a complete and entire delusion. These 'deposits' are not deposits in cash at all . . . They are nothing but an enormous superstructure of credit."

The Rt. Hon. Reginald McKenna, one-time British Chancellor of the Exchequer, and Chairman of the Midland Bank, addressed a meeting of shareholders of the Bank on January 25, 1924, and said, as recorded in his book *Post-War Banking*: **"I am afraid the ordinary citizen will not like to be told that the banks can, and do, create and destroy money. The amount of finance in existence varies only with the action of the banks in increasing or decreasing deposits and bank purchases. We know how this is effected. Every loan, overdraft or bank purchase creates a deposit, and every repayment of a loan, overdraft or bank sale destroys a deposit."**

Davenport's *Economics of Enterprise* states: "Banks do not lend their deposits, but by expansion of credits, create deposits."

The following is from the MacMillan Commission report on Finance and Industry, presented to the British Parliament in June, 1931:

"It is not unnatural to think of the deposits of a bank as being created by the public, through the deposit of cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of the deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities a bank creates credit in its books, which is the equivalent of a deposit.

"A simple illustration in which it will be convenient to assume that all banking is concentrated in one bank will make this clear. Let us suppose that a customer has

paid into the bank £1,000 in cash and that it is judged from experience that only the equivalent of ten per cent. of the bank deposit need be held actually in cash to meet the demands of the customers; then the £1,000 cash will obviously support deposits amounting to £10,000. Supposing that the bank then grants a loan of £900, it will open a credit of £900 for its customer, and when the customer draws a cheque for £900 upon the credit so opened the cheque will . . . be paid into the account of another of the bank's customers. The bank now holds the original deposit of £1,000 and the £900 paid in by the customer. Deposits are thus increased to £1,900 and the bank holds against its liability to pay out this sum (a) the original £1,000 of cash deposited and (b) the obligation of a customer to repay the loan of £900 . . . The bank can carry on the process of lending, or purchasing investments until such time as the credits created, or the investments purchased represent nine times the original amount of the deposit of £1,000 in cash."

Professor A. L. G. Mackay, the well-known Australian economist, has stated in his text book on *Economics*, that:

"In this way, by means of a loan, an advance, an overdraft, or by the cashing of bills, the banks are able to increase the volume of deposits in the community, and because of this process it is not correct to say that a bank loans out deposits which people make with it. **It is clear that it creates the deposit by the issue of the loan; the loan travels back to the bank or to another bank and assumes the form of a deposit.**" (Emphasis supplied.)

Sir R. Kindersley, C.B.E. (Director of Bank of England), in "Harmsworth's Business Encyclopaedia":

"Deposits—Deposits of the commercial and private banks amount to about £2,000,000,000, but this large total has not, of course, been created by the deposit of actual cash, but has resulted in great measure from Credit

created by the banks by the lending of money. The difference between actual cash in its own till, plus its balance at the Bank of England (i.e., Bank Reserves ten per cent. to fifteen per cent. of its deposit liabilities), which are Bank Reserves, and the total of the deposits, represents approximately the extent to which the Bank may be said to have manufactured deposits by the Creation and Sale of Credit (Money).”

Governor Eccles, one-time head of the Federal Reserve Bank Board of the United States, said:

“The banks can create and destroy money. Bank credit is money. It’s the money we do most of our business with, not with that currency which we usually think of as money.”

(Given in evidence before a Congressional Committee.)

Mr. R. G. Hawtrey, previously Assistant Under-Secretary to the British Treasury, in his “Trade Depression and the Way out,” says: “When a bank lends it creates money out of nothing.”

In his book, *The Art of Central Banking*, Hawtrey also wrote:

“When a bank lends, it creates credit. Against the advance which it enters amongst its assets, there is a deposit entered in its liabilities. But other lenders have not this mystical power of creating the means of payment out of nothing. What they lend must be money that they have acquired through their economic activities.”

Lord Keynes, the economist, and war-time Governor of the Bank of England, states: “There can be no doubt that all deposits are created by the banks.”

Giving evidence before the Canadian Government’s Committee on Banking and Commerce before the Second World War, Mr. Graham Towers, Governor of the Central Bank of Canada, frankly admitted the basic functions of the modern banking system. The following are relevant

extracts from the Minutes of Proceedings and Evidence Respecting the Bank of Canada, Committee on Banking and Commerce, 1939:

Question: "But there is no question about it that banks create the medium of exchange?"

Towers: "That is right. That is what they are for . . . That is the Banking business, just in the same way that a steel plant makes steel" (page 287).

"The manufacturing process consists of making a pen-and-ink or typewriter entry on a card or in a book. That is all" (pages 76 and 238).

"Each and every time a bank makes a loan (or purchases securities), new bank credit is created — new deposits — brand new money" (pages 113 and 238).

"Broadly speaking, all new money comes out of a Bank in the form of loans" (page 461).

"As loans are debts, then under the present system all money is debt" (page 459).

Mr. Towers continued: "A government can find money in three ways; by taxation, or they might find it by borrowing the savings of the people, or they might find it by action which is allied with an expansive monetary policy, that is borrowing which creates additional money in the process" (page 29).

Questioned on the subject of Government bonds, and whether the purchase by a bank of \$1,000,000 worth of bonds resulted in a million dollars of new money or the equivalent being created, Governor Towers said "Yes". The questioner then asked, "It IS a fact that a million dollars of new money is created?", and Mr. Towers replied, "That is right" (page 238).

Because many bank managers deny the mechanics of the system they operate, does not mean that they are dishonest. They simply follow convention without understanding clearly what they are doing.

Giving evidence before the New Zealand Royal Commission on monetary systems in 1955, Mr. H. W. Whyte, Chairman of the Associated Banks of New Zealand, stated in answer to questions that banks create new financial credit when making loans and advances. Mr. Whyte added:

“They have been doing it for a long time, but they didn’t quite realize it, and they did not admit it. Very few did. You will find it in all sorts of documents, financial text-books, etc. But in the intervening years, and we must all be perfectly frank about these things, there has been a development of thought, until today I doubt very much whether you would get many prominent bankers to attempt to deny that banks create credit. I have told you that they do; Mr. Ashwin (Secretary to the Treasury) has told you that they do; Mr. Fussell (Governor of the Reserve Bank) has told you that they do.”

The creation and loaning of credit by all banks, **except Central Banks**, is governed by what is described as the “liquidity” of the banking system. This and similar jargon is used to obscure the reality. “Liquidity” simply refers to the amount of legal tender held by the trading banks. As banking practice dictates that credit should not be expanded substantially beyond ten times the amount of what is called “cash at call”. Now “cash at call” is not only governed by the amount of legal tender manufactured by authority of the Central Banks, but of the greatest importance is the fact that Central Bank credit is also treated as cash by the trading banks when deposited with them. Through their control of the creation of notes, coins, and central bank credit, Central Banks dictate the credit expansion, or restriction, policies of the trading banks.

During the Second World War centralised control of credit policy was rapidly extended as a result of Governments making use of enormous quantities of new central credit. Although slightly varying in technique, all Governments then introduced banking legislation which enabled the Central Banks to periodically "freeze" portion of the central credit in the possession of the trading banks, thus ensuring that the trading banks cannot use at will the central credits deposited with them as the basis for further credit expansion.

The major feature of present day politics is the ever-increasing activities of the State with the correspondingly greater increase in Government expenditure. This increased expenditure is more and more in the field of immense capital works which call for enormous capital expenditure. To finance these activities Central Banks create new credits against Government Securities. Central Bank control of these credits when they come into the possession of the trading banks, ensures that the trading banks will be always limited in the amount of credit they can advance for non-governmental purposes. In this manner all nations are being pushed further along the Socialist road. One of Marx's ten steps for communising a State, was to centralise control of financial credit. **Marx never once attacked credit policy.**

The essence of the technique of money creation, most of it in the form of financial credit, is that those issuing it do so against a nation's real credit and assets. Control of financial credit policy means control of a nation's real credit. The more centralised that control becomes, the more centralised the control of all productive capacity. Those issuing, at little physical cost to themselves, a nation's financial credit on the basis that it is their right to do this, on their terms, is a claim to dictate to the individual how he shall gain access to his own productive

capacity—his real credit. It would be just as logical as the printers of railway tickets to loan these, at full face value, to railway organisations to charge them interest on the tickets, and to dictate the terms under which the railways could obtain the tickets!

Debt And Inflation Steps To World State

An examination of how the present finance-economic system operates reveals that it is forcing the individual to submit progressively to more and more centralised control of his life.

No sensible person offers any opinions on any type of system until he first understands how it works, or is supposed to work. Mechanical engineers are capable of correcting faults in motors because they understand the principles upon which they operate. A trained Social Engineer must have at least a general grasp of how the present finance-economic system operates before he can offer realistic advice for how to make it operate satisfactorily **on behalf of the individual.**

The basic feature of industry is that there is a constant flow of two streams, the first being a stream of goods with prices attached to them, and the second being a stream of wages and salaries. As industry generally finances its operations out of loan finance produced by the banking system, in theory industry should distribute sufficient purchasing power to meet at the retail counter the prices of the goods produced, so that the loan finance can be repaid. The following excellent outline of how the present finance-economic systems operates is provided in a *Report on Post-War Reconstruction Policies*, issued by the Vancouver (Canada) Board of Trade in 1943:

“In order to assess the merits or otherwise of the manner in which our present monetary system operates it is necessary to consider its place and function within the national economy. For instance, reference has been made earlier

to the primary function of the monetary system as being "an economic voting mechanism" while this may be readily conceded, its full significance cannot be appreciated unless this comparatively novel concept is related to the accepted ideas of finance . . . how can the production of . . . goods be organised under a system which will give the individual the greatest possible scope for freely associating with others in the common effort, how will a correct accounting be kept of the goods produced, and how will their distribution on an equitable basis be organised? . . . these important functions come within the scope of the monetary system . . . money is essentially a generally accepted claim to goods and services. It is a ticket system which entitles the holder to obtain the goods and services he wants from the supply available for distribution.

"This means that money can be issued only against goods and services: further, that the money must be related to such goods and services both in regard to the number of 'money tickets' issued and the relative relation of each ticket to the different types of goods and services . . . The system which has been evolved and which is in use at present is basically sound. In order to induce individuals to co-operate in the production of goods, money is created and issued to them as incomes for their services. The sum total of all money paid out in all stages of the production of an article constitutes its cost. In this way units of money are related to goods and the other material wealth of a community.

Thus the individual is provided with an inducement to join in the co-operative effort of production, being left free as to what part he takes in this according to ability and so forth. As prices are created in the process of production, so an accurate record can be kept. The individual then has a claim on any of the available goods and services he may choose . . .

“From the foregoing, it will be plain that money should be issued as goods are produced, and it should be withdrawn as goods are consumed, for it would be a falsification of the records if ‘tickets to goods’ were in the hands of the people when the goods were no longer in existence.

“The efficacy and simplicity of such an arrangement in the organisation of a democracy would be valid provided that—

- (a) The amount of money issued to finance production was controlled by the extent to which the people wished to use their productive resources (their real credit) in supplying themselves with the goods and services they wanted;**
- (b) the total amount of money in the hands of the people at any time was sufficient to enable them to buy all the available goods and services.”**

The important question to be discussed now, is “Does industry distribute sufficient purchasing power over any given period to meet the prices of the goods produced?” Like a number of business organisations which have examined this question, organisations like the London Chamber of Commerce and the Southampton Chamber of Commerce, the Vancouver Board of Trade pointed out that **“the system generates a chronic and increasing shortage of purchasing power in relation to the prices of goods coming on the market”**.

Major Factors Causing Deficiency Of Purchasing Power

The system would only operate if total prices represented total wages and salaries paid. But even assuming that total wages and salaries equalled total prices, it is elementary that if some of the wages and salaries are saved, there will be an immediate deficiency. For example, if \$200 of wages and salaries are issued against

\$200 of prices, and \$50 of the wages and salaries are saved, then it is obvious that \$50 worth of goods must remain unsold. If the \$50 is brought back into circulation by the investment in some new capital production, then this means that when this capital unit starts producing consumer goods, it will have to try to recover this \$50 through prices. Theoretically it is possible for one unit of money to be used to generate a number of costs for which there are no equivalent money units. The use of savings to finance new production is a contributing factor to the deficiency of purchasing power.

Everyone responsible for operating an industry knows that he has far more than wage costs. He must allocate a charge for interest on the money he has borrowed. Every industry, irrespective of size, must allocate charges for the depreciation of plant and equipment. As industry develops towards near-automation, depreciation charges become progressively greater in relationship to wage costs. But these plant-charges are not income for anyone. It is the same with profits, which, of course, every industry is entitled to make.

And finally there is taxation. Industry legitimately regards it as a cost which it attempts to recover through prices, helping to force them up. Taxation levied on incomes has the direct effect of reducing purchasing power. An enormous proportion of taxation, including municipal rates, is used merely to repay mounting debts and is cancelled out of existence. The flaw in present financial rules, and the exploitation of that plan by power-lusters, is one of the most explosive factors threatening civilisation today.

Growing Mountain Of Debt

The immediate reaction of many to the above is that it cannot possibly be true, because this would mean a

growing mountain of unsold goods. But in place of the unsold mountain of goods there is another mountain: **one of rapidly expanding financial debt!** It is beyond dispute that the flood of production for sale in the retail stores can only be removed by increasing resort to various forms of credit buying. Unable to buy what they have produced out of their current wages and salaries, individuals in modern communities are compelled to mortgage their future incomes by borrowing against them. Most of the finance for credit buying schemes must originally originate with the banking system. All these schemes operate at high rates of interest and contribute towards inflation. Any finance provided to lending organisations for credit buying by genuine savings, merely aggravates the problem of the deficiency of purchasing power as already explained.

But as credit buying schemes do not of themselves solve the problem of a deficiency of purchasing power, other policies are also adopted. There is growing stress upon the necessity for increased capital production, irrespective of whether any great expansion is necessary to produce required consumer goods. The only realistic purpose of building more industrial plant, more power units, or more water schemes, is because they are genuinely necessary to produce required consumer goods. Financed directly or indirectly out of new interest-bearing debts created by the banking system, capital works do increase the amount of money in the hands of consumers without, **at the same time**, increasing the supply of consumer goods for sale. But as production is a continuous process, and new capital equipment does eventually produce goods for sale, into the price of these goods must be charged all the costs incurred. The result is that the rate of capital expansion must be progressively increased in order to attempt to avert a major break-down in the economy.

At one time all Socialists insisted that industry does distribute adequate purchasing power to buy its own production, and that the problem was that the "greedy rich" had too much purchasing power, leaving insufficient for others. The solution was therefore to use the power of government to take from the rich and to give to those with insufficient purchasing power. While this argument is still often used, generally for crude propaganda purposes, Keynesian (Fabian Socialist) financial and economic teachings stress the importance of financial "pump-priming" by governments to make the economy work. This means increasing governmental activities, with a progressive undermining of the private enterprise system as it becomes directly and indirectly dependent upon government-financed activities to survive. Keynesian financial and economic teachings dominate in most Western universities today, and in practice are a major contribution to the world-wide Marxist advance, as shown in *The Fabian Socialist Contribution To The Communist Advance*.

The Reality Of The "Favourable Trade Balance"

Examined in the context of current international power politics, one of the most disastrous aspects of the flaw in the financial rules of modern nations is the intense drive for export markets under the dogma of achieving "a favourable balance of trade". The drive for export markets is further evidence of the deficiency of purchasing power in any modern country to meet the prices of total production. The "favourable balance of trade" simply means that a nation sends more production out of the country than it receives in exchange. Any boy who plays marbles knows that if he "swaps" ten marbles for six marbles, he has suffered a loss of four marbles. But when he grows up and studies modern economics, he becomes

convinced that when a nation exports ten units of production and only receives back six units of production, this is a highly desirable situation! The true purpose of international trade should, of course, be simply an exchange of real surpluses between nations to their common advantage. But a drive for export markets in order to help solve domestic problems, can only lead to increasing disasters.

Obviously not all nations can have a "favourable balance of trade"; some must have an "unfavourable balance". The unnatural fight for export markets brings the nations of the non-Communist world into increasing friction with one another as they impose tariff and other restrictions against one another. Confirming the famous prediction of Lenin, the non-Communist nations compete with one another to send increasing exports to the Communist nations. Lenin prophesized that the time would come when the "capitalist" nations would be competing to supply the Soviet Union with production, and that they would also provide the loan credits. A number of studies have shown how nations like the U.S.A., Britain, Canada and Australia have financed enormous production to the Communists. In this way they attempt to overcome their own internal deficiency of purchasing power. The Communists are delighted. Only a mesmerised people would agree to sending more production out of their country than they receive back in imports, and use the finance issued against the "favourable balance" to **help buy the production left in their country**, and believe that this is a sane thing to do.

It is true that prosperity does appear to accompany "a favourable balance of trade". This was true, for example, during the Second World War, when nations like Australia and Canada mounted a tremendous "export drive". Suddenly the shortage of finance associated with the Great Depression was overcome. Thousands of millions of new

credits were made available—as an interest-bearing debt—through the banking system to ensure that there was total production. But an enormous amount of this production, in the form of bombs and shells, was being “exported” to the Germans, Italians and Japanese! This “export” drive was, of course, essential, for military victory, but it did distribute purchasing power which otherwise would have been unobtainable. Comparative prosperity replaced depression conditions.

Soon after the Americans started competing with the Soviet Union in the space programmes, two American economists seriously suggested that the main virtue of America’s space programme was not only the possible technological “fall out”, but the offer of an unlimited export market! Realistically, this meant that the American community could “export” enormous quantities of their production into outer space without anyone trying to send anything back. Increased financial incomes can be distributed against the “exports” into outer space and used to help buy production for sale in the U.S.A.

The present finance-economic policy can only operate with an ever-increasing mountain of debt, expanding capital production, irrespective of whether required or not, and “export drives”. One of the major results of this policy is progressive inflation. The propaganda slogan has it that “Inflation is the price which must be paid for progress”. And of course increased wages are blamed as a major cause of inflation.

WAGES AND INFLATION

It is a major fallacy that increased wages and salaries are the **basic cause** of inflation. But increased wages and salaries certainly **stimulate** inflation. The basic cause of inflation is the present type of financial policy, with increasing debt and increasing taxes. Trade Union members,

and wage and salary earners generally, have been misled by Marxist propaganda to believe that the steady increase in prices which erodes their purchasing power, is because of the "profiteering" by the "greedy capitalists". Generally a few carefully-selected monopolistic economic organisations which appear to be making comparatively large profits, are used as examples for the claim that either industry generally could reduce prices with lower profits, or that the profits could be used to finance wage and salary increases without further price increases. An examination of the facts in any modern community will show clearly that the total profits of industry, both primary and secondary, could only pay a very small increase in wages and salaries to those who work in those industries. And this small increase could only be paid once, because industry could not then continue to operate. There would be collapse, something which the Marxists would, of course, welcome. The attempted use of all profits to finance wage and salary increases would also deprive shareholders in industry of legitimate dividends on their investments. Their purchasing power would, therefore, be reduced.

A basic feature of the Marxist war against the free society and the free enterprise economic system, is the claim that class warfare is "inevitable", that conflict is inherent in the free enterprise system. The quite unnecessary conflict between the employer and the employee is a major contribution to Marxist strategy. The Marxists foster this in many ways. They encourage wage-earners to scorn, not only their "capitalist bosses", but the "wealthy land-owners", who are charged with charging excessive prices for food. They point to examples of farmers dying and how their assets have been valued for death duties at perhaps hundreds of thousands of dollars. No mention is made of the fact that the farmers'

assets, built up over a lifetime of work, have been inflated in value by progressive inflation, that against these assets he probably has substantial debts, and that the imposition of death duties, a most immoral and Marxist-type of tax, may force the farmer's descendants either to sell the property to meet the death duties, or to go further into debt.

On the other hand, farmers and employers who talk loosely about the "lazy workers", and blame them for all their problems, are also falling into the Marxist trap. Strikes, including those fostered by the Communists in Trade Unions, are generally designed to obtain increased wages to offset the erosion of purchasing power by inflation. Different countries have different methods of adjusting wages, but the basic problem is the same. Pressure builds up from wage-earners as their purchasing power decreases with inflation. They may use whatever bargaining machinery there is, or they may first strike to force employers to bargain with them, or in countries with an independent arbitration system like Australia, the wage-earners' representatives put their claims before the arbitration judges. The fact that independent judges, after studying the facts, progressively grant wage increases, is irrefutable proof that wage-earners generally have a strong case for an increase in their wages. Resistance by the employers' representatives is not because they are opposed to wage justice for their employees, or are simply "greedy exploiters", but simply because of their own financial pressures.

What happens when a wage increase is granted? For the sake of demonstration, a total wage increase for industry of \$50 million per year is granted, that is, approximately \$1 million per week. Employers must start to pay immediately the award is arranged. But how are they to obtain \$50 million? They do not have

reserves which can be used. Most of them are operating on bank overdrafts. There is only one source from which this increased wage bill can be obtained, and that is from the banking system. Increased short-term loans are necessary. These are provided by the creation of new financial credit as already explained, and loaned to industry as an interest-bearing debt. A \$50 million increase in industry's wage bill therefore demands that industry increases prices by **at least** this amount in order to recover it for repayment to the banking system. But added to the \$50 million must be the interest charge which, at say, a conservative five per cent, is another \$250,000. The total result of the wage increase is simply to increase general prices still further and to increase the indebtedness of industry. Within a comparatively short time the wage-earner finds that the short-term improvement he gained has disappeared, and so the cycle starts again. It is beyond argument that progressive wage increases financed through expanding new credit foster a programme of increasing inflation, with all its disastrous economic, political and social results. The Marxists of all kinds know that so long as this type of financial policy is pursued, no genuine co-operation for their mutual advantage is possible between the different members and sections of society. There is the opposite: increasing friction, resulting from the violation of correct principles of association.

The Marxist support for inflation was put very clearly by the eminent Marxist theoretician, John Strachey, the man who had been first a member of the British Communist Party and later a member of the Fabian Socialist Society. In his book, *Programme for Progress*, Strachey wrote that he had come to believe that inflationary credit expansion policies were "an indispensable step in the right direction". He went on to say, "**the fact that the loss of**

objectivity, and the intrinsic value of the currency which is involved (i.e., inflation) will sooner or later make necessary, on pain of ever-increasing dislocation, a growing degree of social control . . . for the partial character of the policy will itself lead on to further measures. The very fact that no stability, no permanently workable solution can be found within the limits of this policy will ensure that once a community has been driven by events to tackle its problems in this way, it cannot halt at the first stage, but must of necessity push on to more thorough-going measures of re-organisation." This frank statement is similar to that of Karl Marx when he was introducing his famous ten points for Communising a State in the basic Marxist text-book, *The Communist Manifesto*. Marx said that his steps were not an end in themselves, only means to an end. Marx said that while the ten steps "appear economically insufficient and provisional", they will "in the course of the movement . . . necessitate further inroads upon the old social order."

The structure of civilisation is undergoing major revolutionary changes under the pressure of the present finance-economic policy. Rising financial costs, of which heavy taxation is a major feature, are the basic cause of a disastrous centralisation of power in all spheres. Even though in most cases, smaller and medium-sized businesses are more genuinely efficient than bigger businesses, they have been steadily driven out of existence or into amalgamations. The "take-over" business has become a way of life. Ethics have become a thing of the past in many spheres of business. The struggle for power brings out the worst in the individual. Monopoly is developing across national boundaries. Now the rural communities of the non-Communist world are under heavy attack.

These nurseries of the best virtues of civilisation are being ruthlessly pressurised to submit to the gospel of "getting bigger or getting out". Farming as a way of life is being derided. As the rural communities are driven into the swollen big cities, this in turn helps to produce increasing social as well as economic problems which are the inevitable result of an over-concentration of human beings.

There is growing economic as well as human sabotage. Quantity, not quality, is the new gospel. No longer is production made to last. There is "built-in obsolescence" so that washing machines, motor cars and electric light globes only have a limited life. It is a far cry from the days of the first Henry Ford, who said that the aim of the car manufacturer should be to produce a motor car which would last the owner a lifetime. Today there are instead "the waste-makers". Modern advertising has become a type of excrescence which seeks, not to inform, but to stimulate an artificial demand with propaganda which in many cases is blatantly dishonest. Growing financial and economic centralisation is used to justify political centralisation. Municipalities are urged to amalgamate because small political units are "uneconomic". The reality is that they cannot stand the pressure of debt and inflation. Most of their rates are used merely to service debt. State and Provincial Governments everywhere are slowly being strangled by the same process. Centralisation in Government intensifies the growth of the bureaucratic army of occupation, whose directors are in fact the real policy-makers in modern communities. Members of Parliament provide a "democratic" facade behind which the real policy-makers legally operate. Hundreds of thousands are engaged in useless, soul-destroying activities such as putting marks on pieces of paper to record how many others are also putting marks on pieces of paper. Trade Unionists are encouraged

to believe that the "capitalist" employer is the natural enemy, and that the less work done the longer the work takes, which distributes financial incomes, the better. The so-called shorter working week is a joke, with many taking two jobs to maintain incomes progressively eroded by inflation, and with their wives being driven from the home into factories and offices to supplement the family income. Juvenile delinquency increases. Numerous techniques of escapism become more and more prevalent. A sick type of culture reflects the growing decay. The individual feels that he no longer counts, that he has no real control over his own destiny.

Not only is centralisation making its destructive progress inside nations; the amalgamation of nations is being advocated. The "Common Market" in Western Europe is the prototype. Once again the drive for centralisation stems from the insistence that the present finance-economic policies demand progressively bigger units. The fact that the "Common Market"—The European Economic Community—has solved no real problems, but has produced many new ones, does not deter those who claim that problems can be solved by making them bigger. All of this stems from a false philosophy. Rather than repent, those projecting this philosophy seek to use each new problem their policies produce, to further policies rooted in the same philosophy. The end result of the policy of progressive centralisation is, of course, the World State. Irrespective of what label is used to describe such a World State, in reality it must be a World Dictatorship, with power in the hands of the permanent international bureaucracy. Already the foundations of this world tyranny have been established with the creation of the "United Nations Organisation and its associated international organisations, The Food and Agricultural Organisation (FAO), The United Nations Educational Organisation

(UNESCO), The World Bank and The International Monetary Fund.

The World Bank and The International Monetary Fund were the products of the work of Harry Dexter White, the top Soviet agent in the American Treasury Department during and after the Second World War. Both organisations are being used to centralise the creation and control of financial credit on a world scale. Press reports on October 4, 1969, carried the heading, **MONEY LEADERS APPROVE INTRODUCTION OF PAPER GOLD**, and read: **"The International Monetary Fund at the final session of its annual meeting, overwhelmingly agreed to create \$9,500,000,000 in new assets over the next three years . . . Participating countries . . . will receive allocations of paper gold in the form of Special Drawing Rights (S.D.R.s) in the fund in proportion to their economic wealth . . . Paper gold . . . will not circulate in the form of currency . . . It will be book-keeping money . . ."**

With the stroke of a pen, a group of powerful internationalists can now bring into existence international financial credit which they are pleased to call paper gold. This international credit is created against the assets of the member nations of The International Monetary Fund, without which it would be useless, and is a major step towards the complete world centralisation of all power.

THE BASIS OF A COMMUNITY'S REAL CREDIT

A Community's Real Credit Is Its Productive Capacity

Two Major Aspects Of Real Credit

I

BASIC CAPITAL: The soil, a source of both food and minerals, including oil and natural gas. Sunshine. Solar energy. Water. Wind. Natural laws, e.g. Mechanical advantage and the division of labour.

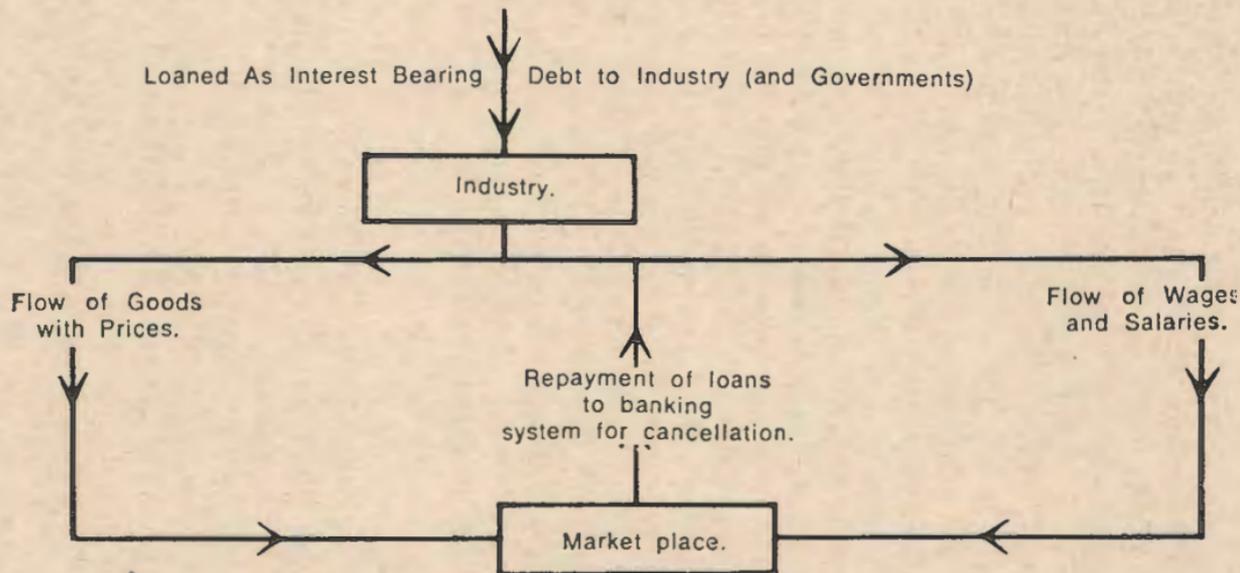
II

CULTURAL INHERITANCE: The "know-how" of applying natural laws to basic capital, passed down and increased from generation to generation, under the general heading of the industrial arts.

Contrary to the Socialist-Communist claim (repeated by many others) that "labour produces all wealth", semi-automatic machinery powered by solar energy has made human energy of relatively little importance in modern productive capacity.

Modern man's actual and potential economic freedom is based upon an inheritance, a profit built up over past generations. He is therefore entitled to some type of dividend. In a money economy, this dividend can only be distributed by providing the individual with the necessary money "votes".

FINANCIAL CREDIT — CREATED BY BANKING SYSTEM AGAINST REAL CREDIT.



LECTURE 3

With an understanding of how the present finance-economic system is being used to attempt to express a philosophy which runs contrary to reality, it is now possible to consider appropriate policies and action necessary to free the individual from the threat of centralised tyranny. Broadly speaking, what is required is a progressive retreat from centralisation of power. But this is not going to happen simply because a number of individuals understand the nature of the power problem. Those who have usurped the power which the individual should be exercising, are not going to voluntarily relinquish this power. Many of them consciously seek even greater power. The arguments advanced in favour of this centralisation are many, including that of those Utopians who want to impose their particular concept of Utopia upon everyone else. Any decentralisation of power will only take place through those exercising the power being **compelled** to relinquish it. This means conflict between those who would be free and those who operate policies denying freedom. There is no way of those standing for freedom to avoid this conflict.

Genuine decentralisation of power is impossible without decentralisation of financial or credit power. A start must be made with modifications to present credit policies. But these policies can only be modified through political action, **through government**.

The first essential for correct action is to sweep away the modern totalitarian conception of government. This conception implies that individuals belong to governments, whereas governments should belong to individuals. Members of Parliament are the servants, most of them well-paid, of the electors. Their primary purpose is to represent and insist upon the implementation of their

electors' policies inside a generally agreed Rule of Law as already outlined. There is a widespread myth, which governments like to foster, about the good governments do, or are going to do for the individual. All government is necessarily restrictive, and there is much truth in the saying that "That nation is governed best which is governed least." The famous English historian, Thomas Henry Buckle, provided a refreshing dash of realism when he wrote in 1867:

"No great political improvements, no great reform, either legislative or executive, has ever been originated in any country by its rulers. The first suggestions of such steps have been by bold and able thinkers, who discern the abuse, denounce it, and point out how it can be remedied . . . At length, if circumstances are favourable, the pressure becomes so strong, that the government is obliged to give way; and, the reform being accomplished, the people are expected to admire the wisdom of their rulers, by whom all this has been done . . ."

Buckle also said that **"The world has been made familiar with the great truth, that one main condition of the prosperity of the people is that its rulers shall have very little power . . ."** That power should be merely adequate to uphold the correct function of government, which is to maintain law and order in all spheres. Order in the field of monetary policy requires a rule of law which would enable the individual to run his own affairs without the increasing bureaucratic economic despotism so much in evidence today. In one sense there is much truth in the widespread complaint that politics are taking up too much of the individual's time. But this is because governments and their agencies are forcing their way into more and more activities which should be decided freely by individuals. **The essence of the situation is that government must be compelled to disgorge much of the**

power it has taken from the individual, and government itself must be decentralised. Individuals must associate to force this procedure. Responsible government is only possible if there are responsible electors. Genuine self-government requires individual electors to play a much more active role than merely putting a mark on a ballot paper every few years, generally in favour of a candidate regarded as the least of several evils, and then going home to do nothing—except, perhaps to make an occasional complaint about, for example, how the cost of living continues to go up. Political democracy cannot be made a reality unless electors initiate policies. Servants can only fulfil their proper role if they are given instructions by those who pay them. What type of policies might be demanded from government? Bearing in mind the facts concerning the present finance-economic system, the type of policy required to prevent the continued subversion of society, is reduced prices, progressive reduction in all taxation, both direct and indirect, less bureaucracy, and a progressive reduction in financial debt. These would be major steps in the right direction.

It is not the responsibility of individual electors to suggest technical methods for implementing these policy steps. But broad principles can reasonably be suggested, and elected representatives required to support them. The correct relationship of the individual to his governments, and the correct role of government in relationship to financial policy, cannot be overstressed. It is the key to the problem confronting those who would serve the cause of freedom.

The first essential is that the individual members of the association called society have a clear understanding of the realistic purpose of government. It is not only a type of General Committee, but can be described as a Board of Directors representing the interests of share-

holders in an association from which, as has been demonstrated, they can legitimately expect to obtain dividends. The amount and the method of distributing the dividends is a question of policy, to be determined by the shareholders in association with their government representatives. But policy must be based upon the same type of information which a Board of Directors of a Company is required by law to provide for shareholders. Any Board of Directors which provided their shareholders with the type of financial information provided by governments, would find themselves in the Courts charged with failure to discharge their proper responsibilities.

As the real credit of a Society is its productive capacity, and, as has been demonstrated, is increasingly based upon a cultural heritage, which includes the principles of complex associations which make available to man unlimited sources of energy, a non-political organisation, which might be termed the National Credit Authority, is essential to make available all the relevant information concerning a Society's real credit. This Authority would bear the same relationship to Government as does the Accountancy Branch of a business to the Board of Directors. One of the major responsibilities of a National Credit Authority would be to provide regularly a National Balance Sheet. All the relevant data is readily available, much of it already provided by Government Statisticians, and with modern computers could be continuously processed without any difficulty as the basis for financial policies serving the true purposes of the individual member of Society. A realistic National Balance Sheet would indicate in financial terms the real profit of a Society.

National Profit

A National Balance Sheet would show on one side the figures of Total National Production and on the other

side Total National Consumption. Total Consumption includes goods and services consumed, goods exported, depreciation, and wastage of population (human wealth) by deaths and emigration. Total Production includes goods and services produced, all goods imported, capital appreciation, all gains in births and immigration.

The relevant figures would indicate whether a profit or a loss had been made over any given period. In modern nations like Australia and Canada, the annual profit is enormous. The item of national appreciation would show the tremendous expansion of industrial plant, the building of roads, bridges, harbours and other real assets. A realistic balance sheet must include human beings. It is elementary that a Society which lost all its population would cease to exist. Every new human being in a Society must be regarded as an asset, eventually, after obtaining an education, increasing still further the increment of association and the real profit of Society.

No drastic changes are necessary to start implementing, step by step, financial policies reflecting economic realities. The trading banks would continue operating their most efficient system in exactly the same way as they do now, but on the clear understanding that they would be doing the financial book-keeping for the community against the community's real credit, and would be entitled to charge only a legitimate profit for their services. It has been estimated that something less than two per cent would be quite adequate. They could be licensed with the National Credit Authority and credit policy based solely on the requirements and real credit of the community with no further nonsense about "cash reserves". The trading banks could compete to serve producers and business organisations as they do at present. They would be genuine service organisations and no longer instruments used for progressively centralising power.

Realistic Financial Principles

Based upon the national profit revealed by the National Credit Authority, all pensions and child endowments could be financed by new financial credits, these created and issued by the Authority itself at the cost of issue, or by any other appropriate method. These payments would be regarded as a social dividend. Rather than attempt to substantially reduce working hours for those in industry (which could easily be done), it would be preferable to get the maximum results from the modern, highly complex, industrial plant by maintaining working hours at approximately what they are now, and start to reduce the retiring age. Most individuals by the time they reach 55 years of age are responsible and matured, many of them with grand-children. With a minimum security provided by an adequate social dividend, and no fear of the value of their money incomes being eroded by inflation, this section of the community would be free for many years to make a valuable contribution to community life in numerous ways. We would anticipate a flourishing of numerous cultural and associated activities. By reducing the retiring age and paying dividends from the nation's profits (to which the recipients would have made their contribution for some 30 years or more) this would be an organic development of the dividend principle in a realistic manner. The payment of child or family endowments to parents up to the age their children finish their education, and can take their place in the community's economic activities, would be another extension of the dividend principle, based upon the reality that the growing child and his education increase the real credit of the community. Adequate family allowances would reduce the present pressure on mothers to work outside the home in order to increase the family income.

The basic cause of many social problems would be removed.

The meagre pensions and family allowances paid at present are a perversion of the dividend principle, being financed out of taxes and serviced by a swollen bureaucracy. These taxes help increase prices. **They do not increase the total amount of purchasing power in the community.** The use of taxation to pay pensions and family allowances tends to produce social friction. The payment of adequate pensions and family allowances by new credits would immediately enable taxation to be reduced, this also tending to reduce prices.

Scientific Price Subsidisation

Price is an essential feature of money. Measured realistically in terms of human energy expended, the real cost of production is falling. There should therefore be a falling price level to reflect this fact. A simple example demonstrates the reality of what is called the cost of production. If coconuts represent the total food supply of a group of natives living on an island where money has never been seen, then it can readily be seen that the real cost of producing coconuts is the number consumed. If, for example, by consuming one coconut, the islanders obtained just enough energy to get another coconut, then clearly the cost of one coconut is one coconut. Expressed as a ratio this would be 1:1. If there is an improvement in technique which enables the islanders to obtain four coconuts from the energy derived from consuming one coconut, then the real cost of production has been substantially reduced. As a ratio it is now 1:4.

As has been shown in this Course, the real cost of production in modern Societies has been reduced dramatically as the result of the application of the cultural heritage to basic capital. Proper national book-keeping

would show the real national cost of production measured in terms of total production to total consumption. A falling price level would not only reflect this reality, but would pass to the individual a most effective type of social dividend. Portion of the community profit as revealed by the National Balance Sheet could be used to finance a scientific price subsidy mechanism, this applied at the retail counter so that new credits for subsidies were paid **only on production clearly desired by the consumer**, this ensuring effective consumer control of production. All that is required is the Sales Tax in reverse. At present the customer walks into a retailer's store and requests a certain item. The retailer immediately inflates the real price of the item by the amount of Sales Tax. He keeps a record and periodically sends the taxation to a Government Department. Sales Tax could be abolished and, instead, when the customer requested a certain item, the retailer **reduces** the price by the amount of an agreed price-subsidy, keeps records in exactly the same way as previously, but now sends them to the National Credit Authority and receives the amount of the subsidies. Everyone benefits.

Those who try to argue that it is impossible to expand credit without inflating prices conveniently forget what happened in the English-speaking countries during the Second World War, when a crude type of subsidy system did hold price levels comparatively stable in spite of the enormous production for war which was of **economic** benefit to the individual. The war emergency forced the introduction of a new financial technique. The suggestion that it is impossible to alter man's finance—book-keeping to reflect economic realities—is astounding in the computer age and one in which man has reached the moon. Most of the effective opposition comes from those who are either philosophically opposed to the individual obtaining

access to his heritage of potential freedom, or those who have a vested interest in growing social friction resulting from present inflationary financial policies. A falling price level with both consumers and producers benefitting, would have the most powerful and beneficial psychological effect in society. The spirit of class warfare and sectional divisions would be replaced with a spirit of growing co-operation.

The spirit of co-operation could also be extended internationally, as trade served the true purpose of exchanging genuine surpluses. Trade warfare would be eliminated. No longer would it be argued that it was necessary to finance exports to the Communists in order to try to make the internal economy operate.

The Second World War provided graphic evidence of the real credit of modern nations.

The enormous productive capacity — real credit — devoted to the Second World War has been measured in financial terms. It would have provided:

- \$24,000 house
- \$8,000 of furniture
- \$40,000 cash

for every family in the United States, Canada, Australia, Britain, Iceland, France, Germany, the Soviet Union and Belgium.

In addition, each city in these countries with over 200,000 population could have been given a cash donation of \$150 million for public needs such as hospitals, schools and libraries. (Quoted in *Facts*, February-March, 1968, issued by The Institute of Public Affairs, Melbourne.)

These payments could have been made without the war—because the war demonstrated the enormous productive capacity available but not being used. But the controllers of credit policy refused to enable individuals

to gain access to their own real credit for peaceful pursuits. However, in spite the destruction of the Second World War, there was an enormous expansion in the productive capacity of nations like Australia, Canada, the U.S.A., South Africa, and even in Britain, where much capital plant was destroyed through bombing.

Bearing in mind that the basic factor in the productive capacity of a modern economy is the cultural heritage, in which all should share, it is obvious that the dividend system must, with every improvement in the industrial arts, progressively supplement the wage system, enabling the individual to be able at all times to meet the total prices of goods and services produced. The flow of finance would be determined automatically by the facts concerning production and consumption, not by Governments, financiers or bureaucrats. The flow of drinking water to a farmers' cattle is not governed arbitrarily by the farmer. He puts a ball-valve on a drinking trough, and this **automatically** adjusts the flow of water to meet the requirements of the cattle. **The consumers—the cattle—dictate the flow of water.** The application of the ball-valve principle to the finance-economic system would lead to a re-orientation of society away from the centralisation threatening it. Employment (most of it useless and sabotaging of both human beings and materials) under central direction would be progressively replaced by self-employment. The economic and governmental aspects of society would be the servants of an expanding freedom in which the individual would have more time and opportunity to develop himself. The basis of education would be modified to prepare the individual for greater concentration upon numerous cultural pursuits, and the various forms of voluntary associations necessary.

The Golden Age of Ancient Greece provides an example of what might be expected when the flowering

of the human personality is freed from the domination of economic considerations. It is true, of course, that this Golden Age was only possible because of human slavery. But today the individual has solar-powered machinery to serve him. Those who express fears about individuals entering progressively into an age of expanding freedom, manifest the philosophy of those who do not trust their fellow-man, who do not believe in the Christian concept of voluntary inducement, and who therefore seek the power to control their fellow-man.

Man was told a long time ago that he cannot serve both God and Mammon. In order to serve God, man must have freedom. God has provided man with the basis for that freedom. The major barrier to man enjoying the freedom now available because of actual or potential material abundance, is man's worship of Mammon, the elevation of a financial ticket system, an abstraction, into an end instead of a mere means to an end.

Genuine Political Democracy Must Precede Economic Democracy

The actual **administration** of these principles is not the business of the electors, nor is it the business of their representatives. There are appropriate government experts who should be firmly instructed by government, representing their electors, what policies are to be implemented. Those permanent officials, particularly those indoctrinated with Keynesian-Socialist economics, who say that they cannot or will not implement the policies required, should be immediately removed from their positions and replaced with those who will implement policies laid down by the electors' representatives. An effective policy of decentralising all power through decentralising financial power will meet with the most bitter opposition. Such a policy would run counter to the drive towards organising man into the

World State. But it must be implemented if civilisation is to be saved. The problem is one of the electors applying sufficient social power to force a change. The major sanctions available to electors are their political votes. Politicians who will not work to advance the policies put forward by their electors must be penalised in the same way that consumers penalise business organisations who will not, or cannot, provide what is required: they must be deprived of votes.

If electors will not make the effort to insist upon the policies they require, they cannot logically complain if they have disastrous policies imposed upon them.

A New Type Of Political Movement

How can electors resist the policies of centralisation being imposed upon them, and reverse these policies? Only by using the social power they can still exercise by correctly associating to make **their** will prevail. Political democracy can only be a reality when a Member of Parliament is primarily responsible to his electors, not to party bosses. But electors cannot expect their elected representative to move openly against the forces of centralised power unless they make it clear that they will support him. It is a fundamental truth that in a democracy, electors get the government, and the representatives they deserve. The basic problem is not going to be solved by creating still more parties, seeking to persuade the elector that all he has to do is to vote for them and all will be well. What is required is a new type of political movement, a type of voluntary civil service staffed by trained Social Engineers seeking to advise and guide electors on how to initiate constructive action in all political spheres. This type of movement has come into existence with the development of The League of Rights.

The League seeks both to provide a service, and a form of association through which individuals wishing to imple-

ment self-government, can unite for effective action. The basic feature of this type of association is the reflection of reality in a structure consisting of comparatively small, decentralised groups of individuals, in which the individual can gain benefits from the increment of association. The co-ordination of League of Rights group activities results in unity of purpose with a diversity of individual effort. There is a vast difference between a group and a crowd. A group consists of a few people; a crowd is a lot of people. Aldous Huxley has written: **“A crowd has a mental life inferior in intellectual quality and emotionally less under voluntary control than each of its members in isolation. The mental life of a group is not inferior, either intellectually or emotionally, to the mental life of the individuals composing it and may, in favourable circumstances, actually be superior.”** Through regular association two individuals in association will achieve more than they will working in isolation. The increment of association increases as the group grows until it becomes approximately six up to twelve. But growth beyond this stage results in the operation of the natural law of diminishing returns. One hundred electors, working in twenty groups of five members each will be far more effective than four groups of twenty-five. One hundred individuals in one group would be a crowd in which individual development and effective action would be extremely difficult.

The League of Rights exists to advise and guide electors who wish to participate in self-government in all spheres, who wish to initiate policies they desire instead of apathetically accepting policies imposed upon them. But political democracy cannot become a reality until sufficient electors actually take action, however faltering and uncertain they may be at first. But it is in the taking of action with their fellows that they begin to realise the influence and power they can exert.

A physically flabby individual does not build himself up by merely going into a gymnasium and passively watching a superbly fit manager exercising. The gymnasium offers the facilities, including advice, on how the individual can build himself up. But he makes no progress until he actually starts to make use of these facilities, starts to exercise his muscles. He must start by using his will. The more he makes the effort to exercise, the stronger he becomes. The League of Rights can in some ways be compared with a gymnasium; it offers facilities and expert advice to those individuals who wish to play a meaningful role in their numerous associations. The League is not just another political organisation suggesting to bewildered and frustrated individuals that it has a neat blue-print for solving all their problems, and that all they have to do is to sign on a dotted line, pay a membership fee, and then go home to await results from the League. This is what modern political parties tend to do. They encourage the individual to abdicate his responsibilities by permitting others power to make decisions in his name. **The League is not competing for power; it is seeking to encourage the individual to develop his own power, multiplying it in association with other individuals, so that he has control of his institutions and the policies they pursue.** An individual does not become a good golfer merely by reading books on golf or listening to lectures on the game. Confidence and proficiency grow from actual practice and playing. Those who would control their political servants must develop their abilities by applying themselves to expressing their viewpoint, either orally or in writing, either as an individual or as a member of an organisation. Confidence grows with experience.

Power in many hands means power in safe hands. There is an old saying that knowledge is power, and that without knowledge one is powerless. It is more correct

to say that individuals with knowledge have a greater capacity for using power than those who lack knowledge. The obtaining of knowledge means individual effort. The League is a special type of association through which individuals can increase their knowledge, and therefore their power. Equipped with knowledge concerning their different institutions and systems, financial, economic and political, individuals can then work effectively within the organisations of which they are already members. In a world of growing tensions, the great majority of individuals tend to look to someone who can speak with authority and help provide an answer to their problems. A sprinkling of competent Social Engineers in any organisation including a political party, can have a tremendous impact. A thousand angry but relatively uninformed individuals, for example farmers concerned about the pressure of rising financial costs, can be quietened by a smooth talking politician. But introduce only half a dozen competent Social Engineers into that audience to challenge that politician, and the situation is dramatically changed.

There are different methods which can be used by electors to instruct their political representatives on the policies they wish him to support, or policies they wish him to oppose. There can be a flow of letters, petitions can be organised, resolutions carried at meetings and similar activities. The League of Rights seeks to foster the creation of non-party electoral organisations which would ensure that there is a close and permanent relationship between electors and political representatives, with the representatives required to meet with and report to his electors regularly, or on special issues.

Those who reject the concept of the individuals of society initiating policies through their political institutions, and controlling their Members of Parliament, are rejecting self-government. It is true that many

Members of Parliament will attempt to resist their electors' instructions to press for financial policies which will place the individual in control of his own financial and real credit. Electors who mean to win the fight for freedom will have to use their electoral sanctions to remove these Members from Parliament. As electors demonstrate their determination and power to defeat all policies of centralisation, better candidates will come forward and offer to serve their fellows. It is interesting to recall that democratic government was pioneered in early Greece in the City States, where the representatives of the people were chosen by drawing lots and held responsible for satisfactory results with the threat of death if they were judged failures!

The political, financial and economic proposals put forward in this Social Dynamics Course are not revolutionary in the sense that they threaten the traditional basis of societies like Australia, New Zealand, Canada, the United Kingdom and the U.S.A. The institutions of these Societies have been evolved over long periods of time and reflect enormous experience and wisdom. The development of the industrial arts has reflected the discovery and successful application of Truth. All that is best in Western Civilisation has found its most complete expression in the English-speaking world, where the Greek contribution of the idea of liberty, and the Roman concept of the Rule of Law, have been fused with the inspirational Truths of Christianity. Generally speaking, these Societies were, before the First World War, evolving in the direction of providing increasing satisfaction for their individual members. Given time and the opportunity for further organic development, there was justification for the view that Western man was on the eve of a new Golden Age in which the personality of man could flower as never before; in which the best in man would develop. But the

start of the First World War marked the beginning of a movement of revolutionary convulsions which now threaten the very existence of Civilisation.

Although its philosophical roots go deep back into history, and much of its organisational programme was being shaped last century, the movement called Communism had to await the event of the First World War before it emerged into the open as an international force. This subversive movement was given a tremendous impetus by another international convulsion, the Great Depression, even more destructive in many ways than the First World War. The fundamental credit of nations, the faith of their individual members in their Society and its institutions, was badly shaken. Skilful propaganda was directed at the individual in an endeavour to persuade him that his desperate plight could only be alleviated by submitting to a policy of increasing centralisation of power. This was a deadly attack upon the philosophical base of the free society and its institutions.

As the Great Depression of the 'thirties was directly caused by a drastic restriction of the rate of financial credit creation, starting in the U.S.A. with the action of the Federal Reserve Bank, those who used their enormous power to produce mass unemployment and economic chaos overnight must be held responsible for the increased Marxist revolutionary activities which resulted from their policies. No realistic study of international power politics of this century is possible without an understanding of the nexus between power exercised through centralised finance-credit and power exercised through revolutionary political activities.

The Second World War and a further undermining of Civilisation was the logical and inevitable outcome of the policies which had produced the First World War and the Great Depression. The major outcome of the Second

World War was a tremendous expansion of the Communist Empire and the undermining of the British Empire as a stabilising force in world affairs. Convulsion after convulsion has followed, with increasing dissatisfaction in every Society. One striking manifestation of this dissatisfaction is the growing revolt of youth, many of whom have become persuaded that their Societies have produced such appalling results that they either seek to contract out completely ("Stop the world, I want to get off"), seek escapism with the aid of drugs, or join forces with those revolutionaries who urge that their Societies should be completely destroyed as a necessary preliminary to replacing them. Probably nothing so demonstrates the sickness of Society than the loss of faith in it by the younger members. Negative criticism of youth ignores the basic cause of unrest: departure from the correct principles of association. A major role of the Social Engineer is to demonstrate to youth that the basic institutions of his Society are sound, that he is heir to an heritage of which he is being robbed through a perversion of his institutions. So far from living in a world passing into the deepening darkness of despair and collapse, he could be on the eve of the finest Civilisation yet produced, a world in which the threat of Communism would pass away like a bad dream.

The decisive factor in the crisis threatening Civilisation will be Faith. If sufficient individuals have sufficient Faith that they do possess the capacity to change the course of events from their present disastrous course, then the mountains obstructing man from entering into his rightful heritage will be removed. Politics and economics will be reduced to their proper role in the scheme of life, while the individual enters into that life more abundant which he was told would come through the pursuit of Truth.

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The League of Rights is a non-party political organization. Its objectives may be summarised as follows:

- Loyalty to God and the Crown.
- Fostering the strengthening of ties between the member nations of the British Crown Commonwealth.
- Support of private ownership of property and genuine competitive enterprises.
- Defence of the Rule of Law.
- Opposition to all policies of totalitarianism, irrespective of their label.

The League is not motivated exclusively by opposition to Communism, and to other threats to individual freedom and dignity; it constantly holds up the vision of a world that could be: one of expanding freedom and security for all, in which every individual can participate freely in association with his fellows to build the finest Civilization yet created by man.

The League is a new type of organization, offering an opportunity for service to those who want to do something purposeful with their lives in opposition to those who seek to drive man down the scale of existence and to deny him his divine destiny.

Recommended Publications

The Intelligence Survey, published monthly, provides a vital intelligence system for the responsible individual who desires to know what is really going on in the world. Specimen copies available upon request. By private subscription only. \$4.20 per annum, post free.

On Target, published weekly, is a news-commentary which keeps the busy person abreast of the most significant developments in the cold war. By private subscription only. \$4 per annum, post free.

Ladies' Line. The steady expansion in the circulation of this publication demonstrates that it is providing a real service for thinking Australian women concerned about the attacks on the undergirding values of their society. Published fortnightly by Queensland Council of the Australian League of Rights, P.O. Box 3, Paddington, Brisbane, 4064. Subscription Rate: \$3.00 per annum.

THE AUSTRALIAN LEAGUE OF RIGHTS

Box 1052J, G.P.O. Melbourne. Phone 63 9749

