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THE PROBLEM OF MONEY

AN APPEAL TO STUDENTS

R.S.J. RANDS B.A.

THE NEW ECONOMICS

THE PROBLEM OF MONEY

An Appeal to Students

by

R. S. J. RANDS, B.A.

A Brief Explanation of the New Economics.

The way to combat Inflation.

Published by

THE SOCIAL CREDIT PARTY

BCM/SOCRED, LONDON, W.C.1

"A FLAW IN THE FINANCIAL SYSTEM."

" There is one way by which even the most ignorant layman can tell that a financial system is not working properly. If a substantial part of the community needs and cannot afford to buy a commodity which other men can make in abundance but are unable to sell for lack of purchasers, the financial system that causes such a frustrating state of affairs is not, whatever experts may say, operating as it should."

An extract from Sir Arthur Bryant's " The Lion and the Unicorn." Published by Collins. By kind permission of the author.

Demand a radical change in
our financial system and end the curse of debt.

Loans are like drugs;
the more you take the more you have to take.

First published 1970.

Dedicated to my grandson, Martyn,
and to students everywhere.

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FOREWORD

Man is not only a political, but also a commercial animal, and has adopted what he has come to regard as an indispensable device for turning the wheels of his productive and distributive machinery. That device is money. In this erudite little book Mr. Rands discusses the problem of money, and argues convincingly that there is an inherent defect in the existing monetary system, leading to the conclusion that there is a large amount of purchasing power which is permanently retained in the productive system, and never reaches the consumer.

Mr. Rands, in fact, restates in non-technical language, and with an attractive literary style, what is known to monetary reformers as the "Douglas analysis" of industrial accountancy. This establishes that, inter alia, some accountancy costs, although charged into prices, are not distributable as current income; that is to say, the price system is not self-liquidating. The book will serve as a refresher course for supporters of Social Credit, but must surely appeal to open-minded students and other young people—as well as to the man-in-the-street who, not without reason, is confused about money and prices.

In addition to dealing with domestic money mechanism, Mr. Rands takes a cool look at the external situation. Ideally, foreign trade should be balanced and reciprocal . complementary rather than competitive. The weakness of the present financial apparatus is self-evident, and Mr. Rands advocates that it should be replaced in so far as is practicable by a system of international contra account, which will reduce or obviate dependence on a central gold or foreign currencies reserve. Here indeed is a ground-plan for improving international relations! This book provides a welcome shaft of light in the mental blackout where the problem of money is concerned. By any standard it is an important achievement.

H. MARSH, Chairman,
Social Credit Party

PREFACE

Students must be acutely aware of the fact that Scientists and Inventors are far more successful in achievements than Politicians and Economists. The superiority of the former is surely due to the fact that they are mainly concerned with absolute accuracy and truth, whereas the latter are influenced far more by prejudice and prestige. It is therefore not surprising that young people are rebelling against political and financial authorities who seem incapable of dealing properly with the political and economic problems that face them.

This book is an appeal to Students to challenge the policies of our orthodox financial authorities, whose interests depend on the maintenance of the present faulty system, which is resulting almost everywhere in appalling taxation and increasing inflation. The ability to expand production in this age of modern technology should, on the contrary, surely result in lower taxation, lower prices and less financial hardship.

Scientists have enabled men to make a fantastic landing on the moon, but Politicians and Financial Experts have so far failed to solve the much simpler problem of how to devise a way of creating the necessary tickets (money) to enable us to meet the costs of the things we produce, or could produce in even greater quantities than we do at present. There is, of course, a limit to the amount of goods we can produce or services that can be rendered, which are governed by the quantity of materials and labour available. They should not be governed by the supply of money, which can be altered as required. Where, however, economists still speak of "relative scarcity", we prefer to speak of "relative plenty".

This book is not an attack on bankers, financiers and economists as such, but on the system they are working. The men running our economic system are mostly honest and efficient, but the system itself is, we believe, mainly false and ineffective.

Some students may be puzzled where such sums as the equivalent of £10,000 million can be found to enable man to reach the moon, when similar sums for possibly more important projects on earth are not forthcoming. This book is an attempt to solve such a puzzle. The author was equally mystified when he was taught that the First World War could last only about three months, as the vast daily expense would soon absorb all savings and incomes. The fact that the war lasted over four years led him to make a careful study of the financial system, a study which revealed that the bulk of the money was created by the banking system. We now hope that the reading of this book will inspire some students to study the monetary system and to search for the flaws that lead to so much unnecessary distress and strife in the present world.

The key to modern problems — particularly the vital ones of the avoidance of bloody revolution, dictatorships and a further World War — is money; and one hopes that these growing dangers will encourage students to study the problem of money. Until money is the slave, and not the master, of mankind, there is little hope of genuine peace or freedom.

R. S. J. RANDS, Stanmore
March, 1970.

ACKNOWLEDGMENTS

The author wishes to express his sincere thanks to Messrs. H. Marsh, C. J. Hunt, the late J. A. White, C. G. Kitchener, V. R. Hadkins and A. M. Wade, for their encouragement and valuable assistance in checking and amending his script; to his son-in-law, Mr. C. W. Boothroyd, for his careful scrutiny of the text and helpful suggestions for its clarification; to his daughter, Mrs. Betty Boothroyd, for her accurate and efficient typing; to his wife, Ena, for her patience and sympathetic support; and finally to Mr. M. B. Reckitt, whose guidance early in the author's life and whose inspiration ever since have stimulated his interest in vital social and monetary problems.

Chapter 1: THE PRESENT SITUATION

Most students must be extremely puzzled at the present state of their country and of the world, and one can hardly be surprised that so many of them are revolting against authorities and losing faith in politicians and economists. It has been aptly said that, "those desiring to make a new world today have the right material at hand, for the existing world began in chaos!" Hardly anything seems to work properly. Where there should be peace between nations there is war; where there should be co-operation in Industry there is constant strife; where there should be economic security in this age of Power Production there is much unnecessary poverty in our so-called "Affluent Society".

Governments everywhere seem incapable of preventing financial crises or of halting inflation and ever-rising taxation; and, as a result, disillusionment leads to the serious unrest which too often culminates in some form of dictatorship such as Communism or military rule. Before, however, we lose faith in democratic government completely, we should carefully consider whether there is not some cause for the constant economic crises which the majority of politicians and economists simply do not understand. There is indeed a very small minority who do understand, but they appear to have a vested interest in maintaining a faulty system founded on debt.

Though it may not be easy to prove there is something radically wrong with the modern monetary system, it is very easy to provide clear circumstantial evidence to this effect, for every worthwhile reform is hampered by lack of money, even though it is physically possible to carry out such a reform. It is physically possible to abolish slums, to build more roads, houses, schools, hospitals, to increase the staffing of universities, schools, hospitals, to extend research into disease, to lessen poverty, particularly among the aged; but in all such aims, however honest the endeavours of our politicians and councillors, they are frustrated by the Treasury on the plea that we cannot afford the cost of most of these projects; yet what is physically possible should be financially possible, since money can be created or destroyed as required.

Even though this truth about money may seem mysterious to many people and may never be really understood, one can only repeat that circumstantial evidence bears witness to its truth, for whenever wars or preparations for wars, or vast space projects have to be financed the necessary money is somehow forthcoming. Anyone daring to suggest making peace with Hitler during the last war, because of a lack of money, would have been regarded as mad or stupid; and not until we regard as mad or stupid Governments that refuse to carry out important projects (because they will not cause the money required to be created rather than borrowed) shall we halt the growing chaos in the world. It must, of course, be admitted that creations of money for war purposes are inflationary, since a large proportion of production is blown to bits, but similar sums of money created for construction in peacetime should not be inflationary, if scientifically controlled, since expanding production requires expanding money.

Most economic experts appear to assume that the production of goods ensures sufficient incomes to meet the cost of such goods, and, when this obviously does not happen, they contend this is due either to the maldistribution of incomes or some temporary cause such as a slump, even though the equal distribution of all incomes would leave us all poor, and slumps occur at alarmingly short intervals. Thus the leaders of our main political parties, believing that production is self-liquidating, implore the workers to increase production if they desire higher incomes and a better standard of living; but if, as facts demonstrate, production does not ensure sufficient purchasing power to liquidate costs, then increased production still leaves us short

of the required incomes to meet such costs. Moreover, apart from any mathematical proof of the flow of costs being greater than the flow of incomes, there is plenty of evidence of the truth of this statement. In other words, if we have sufficient money to meet the costs of all goods and services, why are there thousands of bankruptcies every year? Why does Industry need to spend millions of pounds on advertising to induce us to purchase the goods and services we need? Why do we need ever-increasing Sales to tempt us to buy at reduced prices? Why do we depend on Hire Purchase and, most important of all, why are so many Individuals and Industrial Concerns as well as Local and National Authorities getting deeper and deeper into debt? Hire Purchase debt is now over £1,000 million; Local debt is over £14,000 million; and National debt is now over £33,000 million.

The widely accepted view that increased productivity is the way out of most of our economic difficulties seems at first sight to be wise and sensible; but, though it appears so clearly possible, we need to consider carefully why there is such a limited expansion in the realm of production. It is so obviously possible to expand, since there are thousands of idle or partially idle hands and machines capable of increasing production; and the modernisation of our technical equipment with automation, electronics, etc. in this age of atomic power, if fully utilised with better credit facilities, could vastly augment our physical wealth.

Surely the main reason for the increase of production being less than it might be is the fear of over-production, a fear which largely results from the knowledge that so-called over-production (mainly under-consumption) leads to slumps and unemployment with a fall in wages and profits. Employees, fearing redundancy, tend to indulge in restrictive practices, and employers guard their own interests with mergers, rings, monopolies and agreements in many cases to restrict production in order to maintain prices. Other nations, also, seeking to maintain a surplus in their Balance of Payments and to protect their industries, are compelled to put on tariffs to keep out those of our goods which compete with their own goods. In short, the whole world is capable of vastly increased production, and yet failure to distribute such wealth, through a lack of purchasing power, compels the restriction of production the whole world over and a reduction of world trade.

This lack of consuming power in every country results in economic warfare both at home and abroad. We still behave in developed countries as though we were living in the age of scarcity, whereas potential abundance stares us in the face. Animals will fight fiercely for food when there is a shortage but become tamer when there is plenty for all; and yet so-called civilised men, having reached the stage of relative plenty for all in the developed countries, talk and behave as though we still needed to struggle for existence. Phrases such as: "Business is Business", "The Survival of the Fittest", "The Rat Race", which are so common, denote that the jungle spirit is still unnecessarily with us and permeates our thoughts. Fierce competition is resulting in the growth of bigger and bigger units exemplified in large corporations, nationalised industries, mergers, etc. and the crushing too often of the small business man, even where his existence is of great value to the community. Though it is true that some nationalised concerns and large corporations may be more efficient and economic, there is a place for the smaller concerns. These, however, must find it increasingly difficult to survive in a world of unnecessarily fierce competition, due so often to the general shortage of purchasing power; and it obviously pays financial institutions to back the larger concerns. It is true that heavy borrowing by Government Authorities from the banking system for Nationalised Industries and Public Services helps to ease the shortage of purchasing power, but only at the expense

of high bank interest, and increased taxes and rates, etc., which in turn result in demands for higher wages, which lead inevitably to rising prices and a fall in the value of money (see graph in Appendix). The £ today is worth less than 4/- compared with its value of 20/- in 1914.

Further consequences of our faulty financial system are exemplified in ever-increasing fraud and avoidance of taxation, in cheap, shoddy goods and the making of things that will not last to ensure greater employment or the making of profits of a somewhat doubtful validity, and in easier credit for profitable projects like Bingo Halls and Dog Race Tracks than for more important projects like Medical Research and Playing Fields. Most of these foregoing facts surely indicate that, apart from a lack of money for things that really matter, there is somehow a flow of costs in every industry greater than the incomes distributed by it in the production of its goods. Why else are so many individuals, so many national and local authorities getting, as we have seen, deeper and deeper into debt?

As this chapter has referred to the trend towards larger units in industry, it would hardly be complete without reference to the Common Market. Many people see entry into the Common Market as a possible way out of our economic difficulties, but the supporters of the Common Market have yet to satisfy us that the advantages of entering the Market are greater than the disadvantages. This form of a larger unit, backed by financial interests, would no doubt be beneficial to some big business concerns but at the expense, we fear, of bankrupting many small ones and at the expense also of higher food prices, which would be alarming for so many people. In any case, whatever benefits might result from entry into the Common Market, the fatal flaw in the price system would still remain, since the flow of prices would still exceed the flow of incomes in the whole area.

Chapter 2: THE BASIS OF MODERN BANKING

Students and all who desire more than circumstantial evidence to satisfy themselves that the flow of prices exceeds the flow of incomes would benefit from a careful examination of business accountancy and banking procedure. Too few people realise that the bulk of money is credit (cheque money) created simply by ledger entries in the banks, at no cost to themselves other than the cost of administration, while notes and coins make up a very small percentage of our purchasing power; and that the bulk of the money comes into being as advances to Industry and the Government, which advances are registered as a debt which has to be repaid with interest to the banking system.

The practice of the Goldsmiths in the 17th century helps to illustrate the basis of modern banking. In times of danger, as in the Civil War, people found that the strong rooms of the Goldsmiths were the safest places in which to leave their gold and silver. Receipts (I.O.U.'s) were issued by the Goldsmiths against this gold and silver, and, finding these receipts would be honoured in cash whenever presented to the Goldsmiths, people began to use the receipts as money. In course of time the Goldsmiths found they had gold and silver lying idle, which they were able to lend, often at high rates of interest; and finally, as more and more people were willing to accept the receipts, it dawned on the Goldsmiths that it was perfectly safe to issue more receipts (equivalent to modern banknotes) than were covered by the gold and silver that had been left with them for safe keeping. Thus credit was created out of nothing except the faith of their customers that cash would be delivered on the presentation of the receipts, and until there was some crisis everything went smoothly; but in a crisis there was obviously not enough cash to meet the sudden demand and in this way many Goldsmiths went bankrupt.

To prevent such failures and with the development of banking and greater central control in the 19th century, commercial banks were gradually forbidden to issue their own notes; but to overcome this difficulty in the first half of the 19th century the banks began to create credit for their customers (cheque money) by simply making ledger entries for their customers up to several times the amount of actual cash held by the bank (notes, coins, and balance with the Bank of England); and today it is regarded as feasible by the banking system to lend up to about 12 times the actual amount of cash held. The clearing banks in 1968 held just over £800 million in cash in their tills and in balances at the Bank of England against deposits of over £10,000 million (i.e. about £8 in cash against £100 of liabilities). The banks, however, prefer to talk about credit creation in relation to their liquid assets (cash and short-term bills such as Treasury Bills which they also obtain with credit created at no cost to themselves other than that of administration) and the custom of the banks is to keep about 30 per cent of liquid assets against their total liabilities.

To those who find this explanation of the creation of credit difficult to understand one can only reply that all leading banking authorities and economists now agree that credit is (see quotations from authorities in Appendix) created by ledger entries in the banks, and every advance or purchase of securities by a bank results in an increase of deposits somewhere in the banking system; and the repayment of every advance or the sale of securities results in a cancellation of credit in the books of the banks. In brief, money can be created or destroyed as required; and in tracing its beginnings as advances to Industry with debts owing to the banking system, it should be possible to see why ever-rising debt is one of the main reasons why inflation is inevitable under our present financial system. To use a simile, money can be turned on or off like water from a tap; if you turn on too much in relation to the production of goods and services you get "Inflation" (an overflow); if you turn on too little you get "Deflation" (a tiny trickle); if you adjust the tap until you have obtained the required flow you have "Equation". Inflation, as we all know, means rising prices because "too much money is chasing too few goods", but prices can also be too high because the flow of costs exceeds the flow of incomes in business accountancy; and to understand why costs in the main exceed incomes and how to get "Equation" so that we have the right amount of money in relation to physical wealth, students are seriously recommended to study the Social Credit proposals of Major C. H. Douglas, who, when appointed by the British Government to overhaul the finances of the Farnborough Aeroplane works during World War 1, noticed that the vast concern did not pay out in salaries and wages sufficient purchasing power to go anywhere near equating with the final costs.

This discovery caused Major Douglas to look into the balance sheets of over 100 industrial firms, and in every firm he found the same fault. This flaw in the accountancy system caused him, as an engineer and mathematician, to set out the reason in his famous A + B theorem, which demonstrates that every business has to recover two types of costs: "A" the incomes it pays out within its own concern, such as wages, salaries and dividends, and "B" the payments made outside the firm, such as charges for raw materials, plant, machinery, taxation, interest on bank loans, rates, profit, reserves and depreciation, which must enter into costs (see fuller explanation in Appendix).

If, as this theorem sets out to prove, industry has to collect more in prices (A + B) than it distributes in incomes (A), then the proportion of the product sold in the retail market will be limited to the sum of the incomes distributed; in other words it will be

equivalent to (A) and not to (A + B). The remaining sum will have to be collected either by selling goods for export or by raising further loans to improve plant and equipment. As this process goes on, more and more loans are outstanding, there is increasing pressure on traders to discharge their debts, and this they often try to do by raising prices. There seems little doubt that increasing debt and inflation, mainly caused by creations of credit for armaments, public works, hire purchase and exports on loan have helped to prop up the faulty system, since they result in the distribution of more purchasing power without increasing the supply of consumption goods. Unfortunately the inevitable after-effects of all this are increased taxes and prices, plus a fall in our exports and in the value of our money, followed by Balance of Payments crises.

As many people otherwise sympathetic towards Social Credit may be antagonized through the efforts to understand the A + B theorem, we wish, at this point, to stress that the validity of the case for Social Credit is in no way dependent upon the validity of the theorem. The author is convinced of its accuracy, as he attempts to show in the Appendix, but he realises that its complications too often lead to sterile discussions. It should, however, be obvious to most sympathetic readers, whether they accept the A + B theorem or not, that our present economic system is prevented from breaking down only as a result of its being propped up by ever-rising debt.

This propping up of our faulty financial system would not be necessary if we had sufficient money to meet the costs of goods and services produced, provided prices were regulated in such a way that an increase of money did not of itself result in a rise of prices. The Douglas Social Credit proposals aim to show how this problem could be solved. They point out the obvious fact that physical wealth is appreciating faster than it is depreciating, as is made so clear by the fact that we are steadily increasing the number of our houses, roads, schools, hospitals, etc. When a business or a bank increases its physical assets — buildings, machinery, etc. it credits itself with the increase, and yet a nation, when it increases its assets, writes up a debt. Our National Debt should in the main be a National Credit, if as a nation we arranged the creation of credit only at the cost of administration (which would be less than 1 per cent) instead of going cap in hand to bankers, who create it at high rates of interest, seldom less than 5 per cent and often much higher. If the national appreciation of physical wealth, therefore, is greater than the depreciation, then the Nation should in some way be able to write up a credit against its increased assets in a similar way to a business, and distribute this credit to the community in such a way that every individual gains as a shareholder in "Great Britain Ltd."

We, therefore, have to emphasize that the main problem is how to inject sufficient money into the economy to enable consumption to match production WITHOUT INFLATION. Too many people assume that an increase of the money supply must inevitably result in inflation, though it should be obvious that expanding production requires expanding money. Douglas on this point reminded us that there are conventional laws as well as natural laws; the latter, like the law of gravity, cannot be altered, but conventional laws — such as cricket rules — can be altered if desired, e.g. the l.b.w. rule can be changed. Economic laws are usually conventional laws, and therefore can be altered if required. To expand purchasing power merely by increasing wages and salaries in production will, of course, increase prices, and Social Credit sets out to show how extra money must be distributed to consumers apart from wages and salaries, with a compensated price mechanism by which prices are actually reduced so that inflation is avoided.

Chapter 3: THE SOCIAL CREDIT SOLUTION

Though it is not easy to explain briefly the Social Credit plan for increasing purchasing power and decreasing prices at the same time, yet the solution is comparatively simple. On hearing about it for the first time one is naturally sceptical, and it is not surprising that critics will contend that there can be no simple solution to a complicated problem like our economic system. Yet when a complicated machine like a motor-car breaks down there is often a very simple reason, such as dirt in the carburettor or a leak in a pipe of the clutch cylinder. Exponents of Social Credit contend that there is a serious leak in our business accountancy, which is resulting in an ever-mounting flood of debt and in masses of goods and services beyond the reach of our purses; and they attempt to show how this leak can be prevented to the benefit of everyone, except possibly the powerful financial interests.

It would be necessary to establish a National Monetary Authority (an independent body of statistical experts) responsible through Parliament to the community for the purpose of estimating the value of the whole of our National Assets (now too often regarded as National Debt), and even a mere 1 per cent of the true capital value would provide adequate Reserves as a basis for a future National Dividend. Then at intervals, possibly every six months, the Authority will estimate with the aid of modern computers to what extent there has been an appreciation or depreciation in the value of National Assets.

This surplus of production over consumption (or appreciation of physical wealth over depreciation) would enable the National Monetary Authority to authorise the creation of sufficient credit to enable consumer purchasing power to match the costs of all goods and services. Such credit would be created by ledger entries in a National Credit Account (associated with the Central Bank) in exactly the same way as credit is now created by the banking system; but under Social Credit, consumption would control money instead of money controlling consumption. The creation of credit would then reside mainly with the National Monetary Authority; and the power of the private banks to create credit would have to be more strictly limited by the Treasury than it is today. It might even be considered advisable that the banks should borrow, interest free, from the National Credit Account all the credit required by them to finance industrial production, and that this credit should be returned to the National Credit Account by the banks on the reduction of their clients' overdrafts, after deduction of bank administrative costs.

As an illustration of the practical working of the Social Credit Plan let us suppose that by means of modern computers the National Monetary Authority has discovered that over a period of say six months National Production of all physical wealth is roughly equivalent in value to £4,000 million and that National Consumption is roughly equivalent to £3,000 million; this would then indicate that consumers required about an extra £1,000 million of purchasing power over a period of six months to enable them to meet the costs of all goods and services. To do this in such a way that prices do not rise, the extra purchasing power must not be added to wages and salaries within the productive system, as this would merely increase costs, but must be credited to consumers in some way, with some system of control (**not** fixing) of prices and incomes to prevent inflation. The whole of this £1,000 million surplus could be passed to the consumer in the form of a 25 per cent discount on consumer goods and services over the six months period, until purchasing power was roughly equal to prices; but, as this would benefit those with high incomes more than those with low incomes, it would be fairer to distribute the surplus with a smaller discount to allow as well for a National Dividend and reduced taxes.

It must be stressed that the previous statistics are entirely hypothetical and might well be about five times greater than those given. They are merely the author's attempt to illustrate the workings of Social Credit. Also the surplus to be distributed as a discount or in any other way will vary every six months or so according to the relation of Production and Consumption. If, for instance, Consumption were greater than Production, there would have to be some kind of sales tax instead of a discount on sales. It might well be that a limit might have to be fixed below which the Discount would not operate, in order to relieve the retailer of a lot of bookkeeping and unnecessary worry over small sums, e.g. the lowest limit might be a discount on sales of 2/- in the £, i.e. of 10 New Pence in the Decimal System beginning in 1971. Present-day tendencies to restrict production should disappear, since the community as a whole should benefit from increased production under Social Credit, with lower prices, lower taxes and rates and eventually some form of a National Dividend. Such benefits could be introduced in various ways, but we hope the following attempt to explain how it might be done will make the subject a little easier to understand:

(1) Allot a proportion of the assumed £1,000 million surplus, say £200 million, as a subsidy to retailers to sell goods at a discount with the proviso that the retailer agrees to a percentage of profit on his turnover. The discount would be settled by the National Monetary Authority for a certain period of time, say six months, and let us imagine the discount was fixed at 10 per cent, i.e. 2/- in the £ or One New Penny in every Ten New Pence. The public would benefit from the lower prices, and the retailer would, in due course, recover from his bank the amount of the discount on all his sales (which for accountancy purposes could easily be recorded from his sales invoices). The bank would, in turn, recover the amount of the discount from the National Monetary Authority, which would

simultaneously destroy an equal amount of money by entering an equivalent figure in the debit column of the National Credit Account, and so reduce the National Credit Fund by that amount. This form of subsidy to reduce prices differs from a current subsidy in that the latter is taken from taxation and the former from the balance in the National Credit Account.

(2) Another £200 million of the £1,000 million surplus could be allotted to the Public Sector for National and Local expenditure and so lead to a reduction of taxation and rates, which should further reduce prices. This would also considerably lessen, and we believe eventually end, Government borrowing from the banking system, and so lessen the burden of the National Debt.

(3) Finally, the remaining portion of the theoretical surplus — £600 million — could be distributed every six months in the form of a National Dividend to at least every adult member of the community, which could, in such an example in Britain, amount to about £2 a week. To begin with it might be considered advisable to pay this Dividend only to persons with very small incomes, but with gradually increasing productivity following the spread of automation, electronics, etc., a National Dividend for at least every adult would ease the difficult problem of redundancy, which must inevitably get more perplexing as labour power is supplanted by automated machinery. The National Dividend should eventually be paid to everyone, since the power to produce physical abundance does not depend merely on employers, workers and shareholders, but also on what Douglas has described as "the Cultural Heritage", i.e. the legacy of countless inventions and discoveries down the ages from the simple spade to the amazing modern computers and mechanical gadgets. Every individual should benefit from this common heritage as a shareholder for life, as it were, in Great Britain Ltd. and it would be a kind of "surplus value" for everyone.

Critics fear that with all these financial benefits people would sit back and do nothing, but such slackness would result in a fall in Production, which would reduce the various benefits, since there would be a fall in the discount rate and in the National Dividend. In other words there would be less physical wealth to distribute, since under Social Credit money is related to goods and services. There is also an inducement to work rather than slack, since increased production could mean more credit to finance an expansion of public works: houses, schools, hospitals, roads, etc. The only limit to such expansion should be whether there is sufficient labour and materials for the work required. We can only repeat, what is of such great importance in any economic system, that there would be an incentive to increase productivity, an incentive which we so much lack today. The worker should gradually cease to fear automation as it would result in a higher standard of living with reduced hours of labour. If, as seems inevitable, it means eventually that fewer jobs are available, then adequate redundancy payments would be possible and adequate training facilities for new jobs could be provided as well as fresh housing accommodation; but in any case there would always be the National Dividend as the basis of economic security. To anyone who feels that the Discount Scheme, as explained above, would be too cumbersome and difficult to put into practice, and yet is persuaded that an increase of money is required by consumers with some mechanism to prevent prices rising, one can only reply that when there is sufficient demand from the public for some such scheme then there is little doubt that a simpler method could soon be devised by competent accountants and bankers. In any case, however, the Co-operative Society stores have no difficulty at all in crediting every sale for the purpose of paying Dividends to their members, and housewives and retailers are equally familiarised, and at times almost overwhelmed, with vouchers for 3d off this and 6d off that!

The vast extension of public works such as abolishing slums, building roads, schools, hospitals, civic centres, municipal sports centres and concert halls, made possible by increased credit would no doubt reduce unemployment considerably for many years; but in course of time the fact that automation might mean that in many industries probably only about two men would be needed to do the work of, say, 10 must result in greatly reduced hours of labour. Under the present financial system the management cannot afford to pay wages and salaries at existing rates to an increased staff at greatly reduced hours of work; but under Social Credit, with the consumer helped by reduced prices, taxes and rates, in addition to a National Dividend, the management would be better able to recover the costs of an increased staff on full wages but at a shorter working day. If, despite all such possible improvements, unemployment still continued, we need to be reminded that the object of Production is Consumption and not Employment, which should be obvious from the fact that jobs could be found for most people by scrapping machinery. For instance, roads built with spades or even salt spoons instead of with pneumatic drills and mechanical diggers would soon decrease unemployment! The absurdity of such an idea should help to make clear that the real object of Production is Consumption and not Employment.

In any case it becomes increasingly clear that greater leisure is coming whether we like it or not, and the sooner we start planning and educating people for the leisure age the better it will be for us all. Vast numbers of people do not seem to know how to use leisure wisely (and some probably never will) as is patently clear in our restless and aimless world of today, but as the standard of living and housing conditions improve and education is adequately financed and directed towards teaching us how to live, instead of how just to make a living, then increasing leisure should become a blessing instead of being so often a curse. In this respect it must be remembered that there

are two types of so-called work: the first is connected with a job which enables one to earn a living, and the second is the kind of work one does in spare time, namely some form of hobby or recreation. When more people have the money and time to spend on hobbies and recreation, and cultural and games facilities are properly financed, then arts and crafts and recreation of all kinds should flourish. Modern young people, despite improvements in many ways, are often bored and frustrated because of limited opportunities to develop their spiritual, mental and physical powers.

Chapter 4: THE EXPORT TRADE

Many people will agree that the Home Market could be stimulated by Social Credit in the ways suggested above, but yet they remain fearful about the result on our Export Trade. These fears will be seen to be unjustified once it is realised that far too much stress is laid on the necessity to export. In terms of real wealth every export is a loss of goods to this country and every import is a gain. It is true that under the orthodox system we gain more than we lose if we export more goods than we import, but to call this a "favourable balance of trade" merely shows that orthodoxy takes the shadow for the substance. A gaining of money without an exchange of goods to match the money has an inflationary effect, as explained more fully later. Social Crediters, of course, realise the vital necessity of exporting sufficient to pay for the imports we need, but so much emphasis has been laid on our necessity "to export or die" that the average student might well fail to spot the fallacies underlying so many of the accepted views on our need to increase our exports.

In the first place, for example, every state (creditor and debtor) aims to obtain a surplus in the balance of trade. A creditor nation, after paying for imports with exports (visible and invisible) has to gain a surplus in order to be able to lend; and in the same way a debtor nation has to gain a surplus in order to be able to pay its debts. Yet if some nations have a surplus, others must have a deficit, and therefore it is clearly impossible for all nations to gain the surplus required. It is interesting at this point to note that we are told by our experts that we need a surplus of about £500 million a year in our Balance of Payments at the present time to enable us to meet our commitments abroad and to pay our debts abroad, which have risen by something like £3,000 million in the last four years. Many people are increasingly puzzled and disturbed by continual reminders, in the Press and Broadcasting,

of nations borrowing the equivalent of many millions of pounds from mysterious bankers somewhere to repay similar sums owing plus interest, or to help prevent a Balance of Payments Crisis. Almost the whole world seems to be in pawn to Financial Interests, and we vainly try to borrow ourselves out of debt, which appears to be the height of lunacy! Nations with deficits (and there are many in this unhappy position) are compelled to reduce their imports and lower their standard of living with credit squeezes, factors which later react on other nations when they find they cannot sell so much to impoverished customers.

In the second place, traders try to sell abroad goods they are unable to sell at home through lack of purchasing power, but in so far as there was insufficient purchasing power to buy these goods in the home market there will still be insufficient to buy the imports that enter the country in exchange for the original exports. Every export market is, after all, the importing country's home market with the same deficiency of purchasing power, so that it is not surprising that exporters find that obstacles are put in their way by protective devices such as tariffs and quotas.

In the third place, it pays financial interests to encourage exports, for this enables them to increase their loans abroad, as often high interest can be obtained. It is, indeed, claimed, and often rightly so, that such loans and investments increase our invisible exports (in the shape of interest and dividends) and help our Balance of Payments; but we are seldom told that too often only a small proportion of interest due ever reaches us, since many debtors either fail to pay what is due or are lent further money to enable them to pay their debts. It is as well to remind ourselves that a large part of Germany's reparation payments and debts after the First World War could be paid only when they were lent the money by some of their victors! In our mad world it sometimes pays to lose a war or be in debt! It is significant that the main vanquished nations in World War II, Germany and Japan, are now two of the most successful trading nations in the world!

There seems little doubt that of the thousands of millions of pounds invested abroad over the last 150 years, a large proportion has been frozen credit, and therefore never returned to us, and such money, instead of being wasted, could have enormously increased our assets at home in the form of more houses, schools, hospitals, roads, etc. We have recognised that investment abroad can earn us large invisible exports in the shape of interest or dividends, but it is not sufficiently realised that on many occasions even larger visible exports could have been earned if instead of investing the money abroad it had been invested in modernising some industry at home. Exporting abroad without corresponding imports also helps to reduce unemployment, as incomes are paid out for jobs done in the exporting country yet the real wealth (the goods) is exported. Again, although this also helps to ease the lack of purchasing power in the home market, it may lead to inflation because effective demand for goods has been increased without the supply of goods awaiting consumption in the home market being similarly increased. Finally, an export surplus enables a creditor nation to get control of the concerns and assets of another country if it so desires.

We have tried to show why shortage of money in the home market induces traders to search for foreign markets, but a shortage of money for international trade ("International Liquidity", in financial jargon) appears to be inevitable under the Bretton Woods agreement of 1945. This was intended to stabilise the world monetary system after the Second World War, for not only were parities arranged between currencies, but currencies were geared to gold, yet the production of gold does not keep pace with the production of goods. The Bretton Woods scheme, therefore,

results in international trade being too often a struggle for money rather than goods, and debtor nations in particular are badly hit, since they are compelled to restrict imports, to deflate, and lower their standard of living to gain the necessary surplus to pay their debts. This shortage of International Liquidity, which so often results in Balance of Payments crises in many nations, has caused World Bankers to introduce "Paper Gold" to increase the amount of credit in the world; but until world trade is based on the exchange of goods for goods instead of, as so often, goods for money, it is very doubtful whether just an increase of international credit will prevent Balance of Payments crises, because the flow of prices everywhere will still be greater than the flow of incomes.

Social Crediters would fix exchange rates periodically by agreement, prohibit the buying and selling of currencies except for legitimate commerce and carry on overseas trade by a system of Contra Accounts. Money would then cease to be regarded as a commodity and would become what it was intended to be — a means of exchange. In this way we should be thinking in terms of essentials, such as food, fuel, clothing, shelter, etc., rather than in terms of gold. Gold puts obstacles in the way of expansion of credit and expansion of goods and services. In any case it is surely a pernicious system that allows speculators and gamblers in currencies to upset the stability of nations. Surely we have enough common-sense to devise a better system.

To illustrate the idea of Contra Accounts let us suppose a British Exporter is selling goods to a French Importer, and that Exchange Controls have been established in each country. The British Exporter would draw a Bill of Exchange for the amount due on the French Importer and discount the Bill of Exchange with his bank, which should be under obligation to rediscount it with the British Exchange Control. The

British Exporter would, in this way, be paid in his own currency.

The French Importer, too, would pay for the goods also in his own currency through his own bank into the French Exchange Control, and the British Exchange Control would be given a blocked credit for the amount due. The principle is one to which we are all accustomed in the retail trade. If you have a credit with a shop, you cannot take it out in cash, but you clear it when you take goods. Only when a British Importer bought goods for a similar amount from a French Exporter would the original credit be cleared. The British Importer would pay the sums due in sterling through his own bank into the British Exchange Control, and the respective Exchange Controls could cancel claims against one another. If, however, the British Exchange Control did not wish to make use of the blocked credit in France, then, after a fixed period of time, say six or seven years, the French Exchange Control would be allowed to cancel the credit and Britain would merely have made a gift of goods to the French. Thus, under a system of Contra Accounts, goods would be exchanged for goods instead of for some form of money or acknowledgement of debt. The above example refers only to bilateral trade but nations would have representatives at an International Exchange Control to provide for multilateral trade and the exchange of credits.

Contra Accounts should thus help to reduce economic warfare; but in any case, if any nation manages its financial system so that inflation is avoided, then its money will be regarded as valuable to overseas buyers, since prices will be reasonable. We have tried to show that Social Credit demonstrates not only how inflation can be avoided but also how prices can be reduced. For these reasons the currency of a Social Credit country should be acceptable and even welcome to other nations. Thus in Britain the £ under Social Credit would be entirely safe.

Our present financial authorities rightly stress the importance of protecting the £, but under orthodox finance the protection of the £ is at the expense of the prosperity of the people, since, as we have seen, inflation seems to be inevitable. This compels the Government to limit the expansion which is such a vital necessity as population increases, for higher standards of living are rightly demanded in this age of colossal power production. It is true that our present Labour Government contends that increased productivity and increased exports are main ways of overcoming these economic difficulties, but, as we have seen, under orthodox finance there are various reasons why these important aims are never really achieved. The Government also seeks to limit inflation by its Prices and Incomes Policy, which so far has not been very effective, since the steady fall in the value of the £ leads to strikes, from which the strikers usually gain some or all of their demands for higher wages, which in turn lead to higher prices. The Treasury also requests the banks to reduce their loans and overdrafts to the private sector to reduce the spending power of the consumer; and, though the banks are reluctant to do this, yet advances to the public sector are not checked in the same way, with the result that bank deposits still increase with inflationary effects.

Chapter 5: **THE GUERNSEY EXPERIMENT**

To those puzzled by the idea of the Community creating credit we recommend a careful study of the Guernsey Experiment, which began about 1815. Critics of Money Reform often delight in scaring people by referring to the massive printing of notes in Germany after the First World War, which resulted in appalling inflation, but such critics avoid telling us, or do not realise, that these notes were purposely over-issued to create economic chaos as a protest against the Peace Treaty, and that they were not issued in relation to goods and services. (This inflationary printing of notes, however, enabled them to abolish their National Debt, and this advantage, coupled later with that of large loans from their victors after both World Wars, enabled them to modernise their industrial equipment and set them well on the way to becoming today one of the leading industrial nations in the world.)

In 1815, after the Napoleonic Wars, Guernsey was so economically crippled that it was unable to raise enough money even to pay interest due on debts or to raise sufficient from taxation to meet urgent needs, such as measures to protect the island from the sea, or to build a market place, a school, or roads, etc. To overcome these difficulties someone suggested that the State should issue its own money in some form of scrip, and in due course the State issued £4,000 in £1 notes to build a market place. Every year £400 was recalled in rents and redeemed (in other words, cancelled out of existence) and so after 10 years the whole £4,000 of notes was redeemed and there was no State debt.

State notes were later issued to pay for the building of a school, a lighthouse, a road, etc. and were redeemed from Customs Duties on wines and spirits. In this way money was created for useful purposes and then cancelled, and in this way the creation of

money was related to the creation of physical wealth. It is interesting to note that after the First World War the State issue of notes was increased to £200,000 and circulated alongside Bank of England notes. As a result the world crisis of 1931 never really troubled Guernsey; there was practically no unemployment; and even now Income Tax is only about 4/- in the £.

This creation and cancellation of money in relation to important public projects should be of great interest to all public servants, both National and Local, and should be of particular interest to all people and associations concerned with the vital problem of housing, especially the problem of abolishing the slums and housing the homeless. What a vast difference it would make to the matter of housing if magnificent organisations like "Shelter" were encouraged with allocations of sums of money considerably greater than anything they can raise from voluntary aid! What a vast difference it would make to the Minister of Housing and to Local Authorities if money could be created (debt free) for housing in some similar way to the Guernsey Experiment! Whereas the market place in Guernsey was built for, and only cost, £4,000, a Council House today can be built for £4,000 and yet, owing to the authorities having to borrow the money at high rates of interest for a period of 60 years, the final cost is now well over £16,000 as far as ratepayers or tenants are concerned. In other words rents are almost double what they should be, for, if the State created the necessary £4,000 to pay the builders, etc. and recovered this amount in payments of rent over a period of about 20 years, the house would obviously have cost only about £4,000 instead of over £16,000 as it does at present, and, as a result, rents in all Council Houses could be very greatly reduced. It is perhaps unnecessary to point out that the £4,000 required to build the Council House could be created by ledger entries in the Central Bank or a National Credit Office at the cost of clerical work instead of at high rates of interest as at present; the credit would be recalled through rents over a period of about 20 years and cancelled out in the books of the Central Bank or National Credit Office in the same kind of way as the notes were redeemed in Guernsey. It makes little difference whether notes or credit are used, but, as today most transactions are paid for by cheques, it is necessary to understand that money can just as easily be made by bank ledger entries as by printing notes, and just as easily cancelled out of existence in the ledger as in the redeeming or destroying of the notes.

Chapter 6: GENERAL AIMS AND CONCLUSIONS

We have tried to show why we can meet only a proportion of the costs of our goods and services produced at home, and only a proportion of the goods imported; but Social Credit is neither just a method of obtaining more and more gadgets at lower prices nor just a method of ending unnecessary poverty. The general aim is "a state of welfare rather than a welfare state"; the former encourages individual freedom, while the latter tends to make us all subservient to an all-powerful State. A state of welfare naturally requires that we all have economic security, and to that extent material prosperity is essential; but once money is our servant and not our master we can end so much that is false in our present way of life. Instead of, as at present, being educated mainly to earn a living, we could be educated mainly to learn how to live, and many of the grievances and fears of modern students should gradually disappear.

The greatest fear is probably the danger of another great war, but under a sane money system we should not have to indulge in economic warfare with other nations, as we could exchange goods for goods instead of so often exchanging goods for money or for the mere acknowledgement of debts. In this way we could gradually stifle one of the main causes of war, and the making of armaments to stimulate employment would be unnecessary. Instead of insulting Providence by discouraging good farming in the interest of cheap food (which so often leads to the neglect of "Mother Earth" and appalling soil erosion) we could create credit to encourage agriculture both at home and in the developing countries where hunger is so rife. In this way all mankind would benefit from the proper use of the soil, since the land is the main source of real wealth and should not be sacrificed in the interest of finance. Government grants from richer countries and generous help from fine organisations like Oxfam and Christian Aid for the poor countries are helping them to help themselves in increasing their food production and making them less dependent on supplies from abroad; but unfortunately many of these benefits are nullified because high interest rates have too often to be paid on loans from abroad. Moreover, under a sane money system, where money would be related to physical resources, far greater aid could be given through Government grants of credit than are now possible, however generous the present aid from Governments or voluntary organisations may be, and as a result world production of food and raw materials — so vital with ever-increasing population — would be vastly increased and the danger of revolutions greatly reduced. It has been aptly said that to meet the "Population Explosion" the world needs "Earth Control" as well as "Birth Control"!

History shows that one of the main causes of the fall of the Roman Empire was the misguided treatment of the small farmer in Italy, who could not compete with the cheap corn imported from North Africa, where bad farming encouraged by financial interests caused the soil erosion that resulted in the Sahara Desert; and it is interesting to note that the small farmer in Italy was also harmed by competition from the large farms ("latifundia") which depended mainly on slave labour, whereas today our large farms increasingly rely on mechanical devices (modern slaves). Apart, too, from reducing the flight of labour from the land, we could, by encouraging agriculture at home, maintain many useful small farms as well as improve our Balance of Payments by something like £200 million a year, and at the same time improve the health of the nation through the greater consumption of fresh home-grown food.

Conservation Year, 1970, reminds us that the health of mankind also largely depends on man's rapid and effective dealing with the problem of the pollution of rivers, sea, air and land. The dangers of pollution are probably as great as the dangers of war, and one

fears that the necessary sums of money needed to deal with this tremendously urgent problem would not be forthcoming except under Social Credit principles of finance.

It must be admitted that these Social Credit ideas are regarded as unsound by financial experts, but anyone hearing of these ideas for the first time should not let the views of the experts deter him from further study of Social Credit, since the experts have been proved wrong on so many occasions in this 20th century. They were proved wrong in the way they advised the Government as to the best way to pay for the First World War, since by using mainly bank-created credit we were left with a vastly increased National Debt; they were wrong in the policy of Deflation (as recommended by the Cunliffe Committee in 1918), which led to a serious slump; they were wrong in going back to the Gold Standard in 1925, which was largely responsible for the General Strike in 1926 and further unemployment; wrong in advocating a reduction of wages and salaries and so causing under-consumption at a time of over-production during the world crisis of 1929-31; wrong again in allowing loans to Hitler prior to the Second World War and later financing this war largely by borrowing from the banks as in the First World War, and so once again vastly increasing the National Debt; and now more recently even some experts themselves are beginning to doubt the wisdom of the Bretton Woods Settlement of 1945, which geared world trade to gold when the rate of gold production (made worse by the hoarding of gold) is far below the rate of the production of goods and services, thus causing a shortage of money for world trade (International Liquidity), and compelling nations to restrict vital expansion and limit imports to prevent Balance of Payments crises. Leading World Bankers, who have, in the past, almost venerated the Gold Standard, have now introduced "Paper Gold" — a form of international credit — as a way of trying to prevent the Balance of Payments crises which appear to have been intensified as a result of the Bretton Woods Agreement of 1945.

The International Monetary Fund has authorised as from January 1st, 1970, the allocation of $17,000 million worth of "Paper Gold" (officially described as "S.D.R." — Special Drawing Rights) to its 114 members in the Western World, to be spread over three years. On January 1st Britain's Gold Reserves were accordingly increased, through our share of the assignment, by £171 million, which artificial creation of credit enabled our Reserves to rise by £21 million in February, 1970. These imaginary assets can only be sustained by confidence, but should help to illustrate the fact that money can be created by mere ledger entries.

Some experts suggest raising the price of gold and by this method increasing the liquid reserves of the richer nations to finance the increasing volume of world trade. Doubling the price of gold would mean that an ounce of gold, now officially equal to $35, would be equal to $70. This increase in liquid reserves, it is argued, would help to prevent constant currency crises and also enable the richer nations to give more genuine aid to the less fortunate nations of the world. Others advocate that the International Monetary Fund should be developed into a Central Bank for the present central banks of the world and that this Central Bank should create credit for the lesser central banks by book entries in much the same way as the banking system in general creates credit for its customers.

Probably these ideas of "Paper Gold" and a Central Bank for central banks would strengthen the Bretton Woods scheme, but they would hardly lessen the bad effects of inflation, even though they might slightly improve the economic situation in the world. Nor do they do anything to ensure that nations will have sufficient purchasing power to enable the costs

of goods produced in the home market to be met, for only when the people of any State are able to buy more of the goods produced in their own country will they then be in a better position to buy more goods from abroad, provided there is, as we have tried to show, a system of Contra Accounts.

At this point, however, we must emphasize that Social Crediters rate very highly the need for national self-sufficiency, whereas, under orthodox finance, external borrowing has for Britain become an accepted way of life. This is encouraged by the International Monetary Fund, under which, as loans are repaid, further drawing rights are granted. Thus externally, as well as internally, we live in a situation of incessant borrowing. We can neither rid ourselves of debt, nor can we control our own financial affairs, as is made abundantly clear in the Chancellor's recent Letter of Intent to the International Monetary Fund, in which, towards the close, he says: "The Government will consult with the Fund from time to time, in accordance with the regular policies of the Fund on such consultations, about the course of the United Kingdom economy and any measures affecting the balance of payments that may be appropriate." This last, crushing submission to so-called financial experts deprives us of almost all financial freedom.

This brief account of the advice of orthodox financial experts since about 1914 and of the many failures resulting from such advice should give us good reason for questioning the opinions of such experts. Yet such is the influence of the Money Power that exponents of the New Economics are seldom able to get their views published in the National Press or on Television or Radio. There is a strange "Conspiracy of Silence" where Money Reform is concerned, or if the silence is strangely broken then the suggested reforms are merely ridiculed and are never discussed fairly and dispassionately. Surely this refusal to allow publication and discussion of new ideas is a sign of weakness and fear. There is little doubt that most of us are inclined to be conservative at heart and suspicious of most new ideas, even though it is generally recognised that the unorthodox of today is the orthodox of tomorrow. For example, it took over 100 years for the experts to accept the discovery that the world was round and not flat, and most modern discoveries or inventions such as anaesthetics or aeroplanes were for a long while scoffed at by so-called experts. It is worth noting at this point that the late A. V. Roe, famous as one of the early pioneers in aeronautics, was also one of the early pioneers in Money Reform, and when asked, towards the latter part of his life, whether he was not worried at being described as a crank over currency reform, he replied that ever since a leading National Newspaper, in the first decade of the 20th century, had ridiculed his belief in "heavier than air" machines, he was naturally not disturbed at being described as a crank over currency reform!

Many will argue that, though experts are often wrong, there is little hope of putting things right until there is a "change of heart". There is certainly no doubt that good economics will be good ethics, but good ethics will not necessarily result in good economics unless a moral outlook is combined with sound thought. Even a gathering of saints would not be expected to know how to mend a leak in some part of the mechanism of a car, and much less could they be expected to know how to mend a leak in our industrial accountancy system. However, it must be agreed that the more saintly we are the more likely we are to want to know how best to change our insane financial system, and to this extent one naturally looks to high-principled people to support impartial investigation of Social Credit ideas. At the same time even the most honest folk are subconsciously inclined to "ride in blinkers" and see things as they want to see them, and for this reason even many of our best politicians are scared to challenge the orthodox financial system, as then in some mysterious way promotion may be denied them. Very few politicians have had the courage to oppose the authority of the Treasury, and for this reason they are, anyhow subconsciously, disposed to accept the views of orthodox experts.

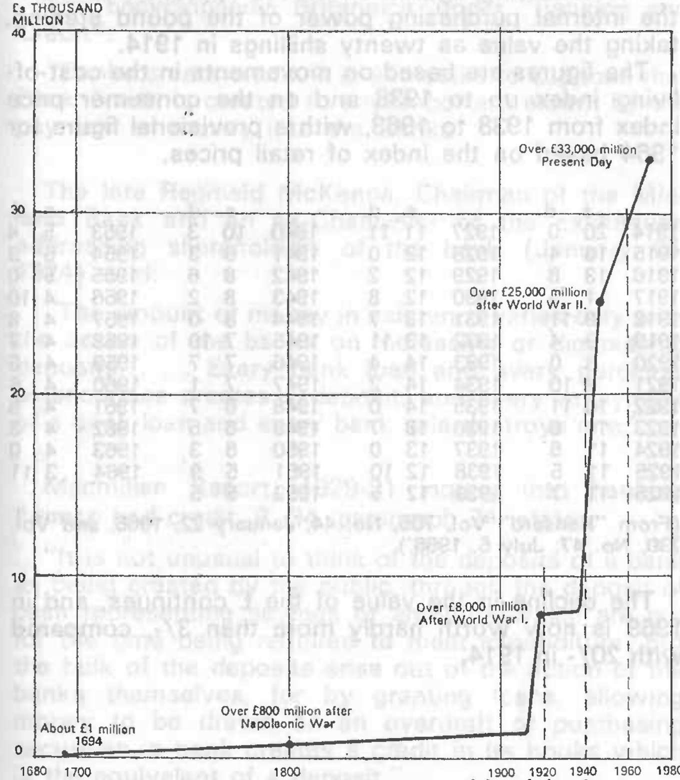
Having tried to show that even many honest people tend to be conservative and prejudiced or else to "ride in blinkers" (and even Labour Statesmen seem to have to bow to the dictates of International Finance in foolish attempts to borrow us out of debt) we are, therefore, appealing to the younger generation to examine Social Credit before they become prejudiced or so busy in earning a living that they have not the spare time to try to find out what is really wrong with the economic system. There is no reason to wait for a World Government before radical reform in the financial system can be achieved, and in any case World Government at present would probably mean even greater domination by the Money Power, a likely state of affairs not sufficiently realised by large numbers of honest people striving for peace in the world. In other words, any one country could set an example in Money Reform, which other countries would soon follow once they saw the benefits that resulted from such a reform. Britain, preferably in co-operation with the main members of the Commonwealth (and there are already many supporters of Social Credit in Canada, Australia and New Zealand) could set such an example. Though we may no longer be a first-class power in the military sense and are too ready to acquiesce in the view that we are decadent and slothful, we are still greatly respected for our heritage and genius in many ways, such as our sense of justice, our world pioneering, our skill in the realm of inventions and the development of the idea of representative government, and we could challenge and lead the world in a better way than ever before if we could demonstrate the way of replacing National Debt by National Credit. Associations, demonstrations, marches and dedicated work by modern youth in such a cause could help to make us a first-rate power in the best sense of that phrase and start a series of events that would be of benefit to all mankind. Such a cause should appeal to youth and give them a sense of purpose in place of the present mood of despair and disillusionment which leads to so much dissipated energy. They would be the spearhead in an effort to overthrow the most powerful vested interest in the world — the Money Lords — and so help to bring to an end two of the greatest fears of mankind: the fear of Want and the fear of War.

The hope of ending such fears was eloquently expressed by Sir Winston Churchill at the opening of Parliament on November 3, 1953: "There is no doubt that if the human race are to have their dearest wish and be free from the dread of mass destruction they could have, as an alternative, what many of them might prefer, namely, the swiftest expansion of material well-being that has ever been within their reach or even within their dreams. By material well-being I mean not only abundance but a degree of leisure for the masses such as has never before been possible in our mortal struggle for life. These majestic possibilities ought to gleam and be made to gleam before the eyes of the toilers in every land and ought to inspire the actions of all who bear responsibility for their guidance."

THE APPENDIX

APPENDIX 'A' NATIONAL DEBT 1694-1969

Graph illustrating rise in National Debt from about £1 million in 1694 to over £33,000 million in 1969.



It is argued that the interest on this debt is transferred by the State to members of the community, and is therefore not as serious a problem as it appears. It is, however, necessary to point out that there is little doubt that the major portion of the interest goes to financial institutions, and that consequently the mass of people are taxed in the interest of such financial institutions.

APPENDIX 'B'

PURCHASING POWER OF THE £

The following figures show the approximate fall in the internal purchasing power of the pound sterling, taking the value as twenty shillings in 1914.

The figures are based on movements in the cost-of-living index up to 1938 and on the consumer price index from 1938 to 1963, with a provisional figure for 1964 based on the index of retail prices.

	s.	d.		s.	d.		s.	d.		s.	d.
1914	20	0	1927	11	11	1940	10	3	1953	5	4
1915	16	4	1928	12	0	1941	9	3	1954	5	3
1916	13	8	1929	12	2	1942	8	6	1955	5	0
1917	11	5	1930	12	8	1943	8	2	1956	4	10
1918	9	11	1931	13	7	1944	8	0	1957	4	8
1919	9	4	1932	13	11	1945	7	10	1958	4	7
1920	8	0	1933	14	4	1946	7	7	1959	4	6
1921	8	10	1934	14	2	1947	7	1	1960	4	6
1922	10	11	1935	14	0	1948	6	7	1961	4	5
1923	11	6	1936	13	7	1949	6	5	1962	4	3
1924	11	5	1937	13	0	1950	6	3	1963	4	0
1925	11	5	1938	12	10	1951	5	9	1964	3	11
1926	11	7	1939	12	5	1952	5	5			

(From "Hansard" Vol. 705, No. 44, January 22, 1965, and Vol. 730, No. 47, July 5, 1966.)

The decline in the value of the £ continues, and in 1969 is now worth hardly more than 3/-, compared with 20/- in 1914.

APPENDIX 'C'

BANKS CREATE MONEY

The Encyclopaedia Britannica, under "Banking and Credit":

"Banks create credit. It is a mistake to suppose that Bank Credit is created to any important extent by the payment of money into the Banks."

The late Reginald McKenna, Chairman of the Midland Bank and an ex-Chancellor of the Exchequer, addressing shareholders of the bank (January 25, 1924) said:

"The amount of money in existence varies only with the action of the banks on increasing or diminishing deposits. . . . Every bank loan and every purchase of securities creates a deposit, and every repayment of a bank loan and every bank sale destroys one."

Macmillan Report, 1929-31 inquiry into banking finance and credit, P. 34, paragraph 74, states:

"It is not unusual to think of the deposits of a bank as being created by the public, through the deposit of cash representing 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 a credit in its books which is the equivalent of a deposit."

Memoranda of Evidence (Vol. 1) submitted by the Bank of England to Radcliffe Committee on Government Borrowing (1959):

The Control of Bank Credit in the U.K. (page 9):

"Entries in the books of a bank have come to be generally acceptable in place of cash (i.e. credit).

"Banks cannot create credit in this way without limit. It has come to be accepted since 1946 that they hold an amount close to 8 per cent of their deposits in cash — notes and coin — or balances on account at the Bank of England.

"As a general rule the banks will be very reluctant to see the ratio to their deposits of their cash plus other liquid assets — their "liquidity ratio" — fall below 30 per cent."

APPENDIX 'D'

To those who refuse to face up to the suffering and despair that largely result from our futile money system on the ground that we live in an "Affluent Society", we would remind them of the following facts:

(1) Millions of aged people are living either on or very near the poverty line, and a large proportion of these require National Assistance.

(2) Millions of people are still living in slum conditions; thousands of families are homeless; millions are living in drab and dilapidated homes (not regarded as slums).

(3) Many thousands go bankrupt every year.

(4) Many thousands commit suicide every year.

(5) Many thousands are in prison for debt.

(6) Over half a million are unemployed.

(7) Millions are struggling to make ends meet in this age of galloping inflation, especially those with small fixed incomes.

(8) Foolish and disastrous economies are made where health, education and vital public services are concerned.

(9) A large number of charitable organisations appeal for money (which is not easy to acquire but easy to create) to gain the equivalent of food, clothing, warmth and shelter (which are physically possible).

APPENDIX 'E'

A + B THEOREM

	Firm X	
Payments to individuals within the Firm	Salaries Wages Dividends etc.	A
		+
Other costs	Raw Material Depreciation Reserves Bank Interest Taxation and Rates, etc.	B

Firm X has to recover the costs of Salaries, Wages, Dividends, plus the costs of Raw Materials, Depreciation, Reserves, Bank Interest, Taxation and Rates, etc. As the flow of income in Firm X is "A" while the flow of costs is "A" + "B", it should be clear that the flow of costs is greater than the flow of incomes. In other words, the individuals in this firm, using all the incomes paid to them, would be unable to meet the total costs of the goods that they produce.

As in the case of Firm X, every business has to recover A + B costs from the public, but distributes only "A" incomes. Thus there is never sufficient purchasing power distributed through industry as a whole to enable the public to meet the costs of goods produced. As we have tried to show, this deficiency is partly hidden by ever-increasing bank advances to the Public Sector and in other ways, but at the expense of ever-rising debt and inflation.

Many critics deny that the flow of prices is greater than the flow of incomes and they assert that "B" charges are "A" incomes at some stage of production, and therefore they claim — in face of all evidence to the contrary — that there is sufficient purchasing power distributed to enable all costs to be met. The

two main answers to this criticism are firstly that the "A" incomes of the "B" charges have in the main been spent and cancelled out in repaying bank advances, and secondly all stages of production (primary, intermediate, etc.) have A + B costs and therefore each stage has incomes equal to "A" but costs equal to A + B, which costs they pass on to the next stage of production. Thus, when they reach the retailer at the final stage, the costs to the public must be greater than the incomes distributed at all stages (even presuming the incomes distributed at each stage of production were still in existence and had not been cancelled out of existence in the purchase of goods and services).

Critics usually refuse to accept even this explanation of the "A + B" theorem and contend that "B" charges are "A" incomes existing somewhere and that, if these incomes have been cancelled out in the past, it does not matter, as future stages of production will distribute the required purchasing power to enable all costs to be met. This argument ignores the time element and is similar to saying that a housewife is not financially worried if she can meet this week's bills with next week's housekeeping allowance. Such expedients may ease temporary financial embarrassment but only at the expense of mortgaging the future. In contrast Social Crediters believe that it is only necessary to prove that in any one cycle of production there is insufficient purchasing power distributed to meet the costs of goods and services produced in that period of time.

To those who find the "A + B" theorem too complicated to grasp, but yet feel it is obvious, from the evidence of ever-rising debt, that costs in industry exceed incomes distributed, we would suggest that the existing deficiency of purchasing power can be satisfactorily explained as the result of people saving and investing their money in some way in industry rather than spending it on consumption goods. Such saving and investment in industry create costs at least double the incomes available to meet such costs. For example: £100 of a salary paid out in, say, a carpet firm will result in £100 of costs in the carpet firm, but when this £100 of salary is saved and invested in, say, a shoe firm and paid out as wages in this shoe firm, then there will be £200 of costs (£100 worth in the carpet firm and £100 worth in the shoe firm) to be met when only £100 will have been distributed as income.

Money saved and invested in plant and machinery causes the same kind of deficiency, though the form of double costing may be a little more difficult to understand. Money invested in plant and machinery results in an overhead charge, and an overhead charge is any charge in respect of which the actual distributed purchasing power does not still exist (the basis of the "A + B" theorem). For example: if the shoe industry used £1,000 invested in it from incomes saved in the carpet industry to install £1,000 worth of machinery, then, provided the wages of the machine makers are spent, the community will have received sufficient purchasing power to enable the carpet industry to recover the £1,000 worth of costs. These costs the community could not meet until the £1,000 saved in the carpet industry was spent by the makers of the machines which the shoe industry installed (or until the banks created further amounts of money for various purposes which would ease the situation temporarily at the cost of further debt). The point that is not sufficiently realised is that when the carpet industry recovers its costs it can repay its bank overdraft (or replace its capital reserves) and the £1,000 is then cancelled. BUT the shoe industry in the next stage of production has to recover the £1,000 spent on machinery by charging something like £100 a year for depreciation over a period of 10 years, when, as we have seen, the money to meet such charges has been cancelled out of existence.

If the depreciation charge were the only "B" charge

in this shoe industry then the "A + B" charges would, in diagram form, appear as follows:

Shoe Firm

Payments to Individuals within the Firm	Salaries, Wages, Dividends etc.	A = say £2,000
Other costs	Depreciation Charge	B = say £100

i.e. Costs = £2,100
Incomes = £2,000

Critics, in the same way as we have seen previously, contend that, if the money to meet the depreciation charge has been spent and cancelled out of existence, it does not matter as (again ignoring the time factor) the construction of another similar machine will supply the incomes needed to meet the deficiency. In other words, according to this argument, if the depreciation charge on an oven for the making of bread results in costs exceeding incomes, it does not matter because the construction of another oven will restore the necessary purchasing power. It strikes Social Crediters that it is economic lunacy to depend on the making of a second oven (whether required or not) to enable consumers to have sufficient purchasing power to buy bread made in one oven. There is, however, little doubt that such a form of excessive capital production, encouraged by financial interests, helps to bridge the gap between consumption and production, but it has inflationary effects, as incomes are paid out for the making of the capital goods before the final consumption goods enter the market.

Even Ruskin in the 19th century in his famous book "Unto this last" spotted the economic fallacy of making excessive capital equipment when he pointed out that the object, for example, of growing tulip bulbs, was the production of tulips and not just more tulip bulbs, and that the object of sowing seeds of corn was to produce bread and not merely multiply the number of seeds. Ruskin therefore condemned financial interests for concentrating too much on capital goods (bulbs and seeds) and not sufficiently on consumption goods (tulips and bread).

Reserves

Reserves in the form of undistributed profits, as in the case of depreciation charges, result in double costs. In both cases money is withdrawn from the community for the expansion of industry either directly by means of investment in capital goods, or indirectly by the use of undistributed profits. In other words every penny of consumer income that has been invested in capital goods or kept as reserves will have equivalent costs in industry somewhere, and when undistributed profits are used later for the expansion of premises or machinery a second cycle of costs will result, in a similar fashion to the way investment in capital goods, as we have seen, results in a second lot of costs. A diagram to illustrate this would be like the one illustrating the effect of the depreciation charge in the shoe industry; it is only necessary to substitute "Reserves" in place of "Depreciation" in the column listing "B" charges, and once again it should be clear that "A" is not equal to "A" + "B", i.e. in this case Incomes "A" are not equal to costs "A" + "B" (Incomes + Reserves).

We suggest that students who still remain puzzled by the contention that investment and reserves create double costs (as well as being doubtful about the "A" + "B" theorem) should consider the matter of single costs in a business over and above the incomes they distribute. Examples of such single costs are: interest on bank loans, taxes and rates. Every business has to collect from the public amounts to cover rates and taxes which are sums in excess of incomes distributed by the business; and the vast number of con-

cerns that rely on bank overdrafts have to recover at least £105 for every £100 borrowed, which is only possible if the banking system creates (by ledger entries) another £5. An increased profit of £5 is not (as many seem to think) an extra amount of money in circulation to enable the business to meet the £5 bank interest charge; it is only a transfer of existing money from one account to another.

The following diagram, with hypothetical sums of money, may help to clarify the above contention that bank interest, rates and taxes, if collected by a business, compel that business to charge the public "A" + "B" when the public are only receiving incomes ("A").

Firm X

Payments to Individuals in the Firm { Wages, Salaries, Dividends } A = £1,000

Other costs { Bank interest £50; Taxes, Rates } £250 } B = £300

Total Costs = A + B, £1,300
Incomes paid = A, £1,000

Many economists argue that Douglas, in this "A" + "B" theorem, has failed to realise that the velocity of the circulation of money has the effect of increasing the supply of money, but in fact he clearly demonstrated the fallacy of the velocity of circulation theory with a very simple illustration. He pointed out that, presuming a butcher received £1 for the sale of meat and that he quickly spent the £1 at the baker's, there might be a speed-up of sales but there was no increase of purchasing power. The only increase would have been an increase of debt, for when the butcher received the £1 for the sale of meat he probably had about 19/- worth of costs to take into consideration and only about 1/- clear profit to spend at the baker's, or anywhere else. There is also little doubt that under the present financial system most of the £1 received by the butcher would have been cancelled out of existence in repaying a bank overdraft, which overdraft would have enabled him to meet various costs incurred, such as wages or payments to a farmer in respect of cattle supplied, etc. Therefore, had he spent the £1 at the baker's he would have been almost £1 in debt.

This simple example shows that there is no increase in the supply of money as a result of the velocity of its circulation, and that this theory in no way lessens the truth of the "A" + "B" theorem.

Some people, who have never quite grasped the "A" + "B" theorem, have eventually been satisfied that the flow of prices is greater than the flow of incomes as a result of careful study of the following illustration: In any given period of time presume that incomes received from industry as a whole are £10 million (which means £10 million worth of costs) and that £1 million of these incomes are saved and invested in further production. It should be clear that, until the £1 million invested is spent, industry will be able to recover only £9 million of its £10 million costs, but when the £1 million invested in further production comes out as incomes then industry can recover the full £10 million of its original costs. When, however, the £1 million worth of new production costs come on the market, the incomes to meet such costs do not exist; they will have been cancelled out of existence when industry has been able to recover the full £10 million worth of its original costs. (The completion of sales enables businesses to repay bank advances, and the credit then ceases to exist. Firms that finance production from capital reserves merely replace their capital reserves on the completion of sales.)

The above illustration is another example of double

costs, for the original £1 million worth of incomes previous to investment would have resulted in £1 million worth of costs, and when invested in £1 million worth of further production would have resulted in another £1 million worth of costs. In other words, there are £2 million worth of costs but only £1 million of incomes distributed to meet such costs.

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