INTRODUCTORY SOCIAL CREDIT TRAINING COURSE - LECTURE 6
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"Capital Expansion essential for Full Employment?

During the earlier presentation of Social Credit, nothing created so much controversy as the Social Credit analysis of financial costing in modern industry, demonstrating that as industry became progressively more mechanized and powered by solar energy, it also progressively distributed less purchasing power to individuals in the form of wages, salaries and dividends. Today the economic "experts" tacitly admit what Douglas discovered when they urge that new financial credits should be created by the banking system for increasing capital production, particularly Government capital production, in order that depressions may be avoided. The proposals of the late Lord Keynes - Keynesian economics they have been termed - have become widely accepted as the only means whereby the total purchasing power in the hands of consumers can be kept at a sufficient level to keep the economy functioning without unemployment. These and similar proposals which we will examine shortly, are designed to try and overcome the deficiency of purchasing power which Douglas first discovered and the causes which he analysed scientifically.

In making a brief examination of this matter, it is first essential to point out that Douglas did not postulate some theory concerning a deficiency of purchasing power and then set about looking for evidence to support the theory. Apart from being a very brilliant engineer, Douglas was also an outstanding mathematician and a man with an intimate knowledge of costing in industry. During the first world war, Douglas was recalled from the army by the British Government to solve some problems in the Government's aircraft factory at Farnborough. In order to assist him with his investigations, Douglas had two sets of cards made. One set related to the prices on the production coming from the factory and the other set related to the wages and salaries paid out to employees. It was in his operation of these two sets of cards that Douglas observed that the stream of cards issued in relation to prices was always greater than the stream of cards issued in relation to wages and salaries. In other words, prices were being created at a faster rate than purchasing power was being distributed to individuals. The implications of this discovery were so far-reaching that Douglas decided to examine the matter much more exhaustively by making an examination of a large number of Production Units throughout England - units engaged in all aspects of production. The examination proved that every one of these units was creating prices at a greater rate than it was distributing purchasing power to individuals. By true scientific research, Douglas discovered that industry as a whole was creating prices at a faster rate than it was distributing purchasing power. Having made this discovery, he then turned to an examination of the reason for this accelerating discrepancy. This examination is outlined in Douglas' earlier works, particularly *The Monopoly of Credit*, but we will not deal with it here in detail. However, we can note that Douglas eventually crystallized his analysis in the form of a theorem - the A and B theorem - which he stated as follows:

"In any manufacturing undertaking the payments made may be divided into two groups:

> Group A - Payments made to individuals as wages, salaries and dividends;
>
> Group B - Payments made to other organisations for raw materials, bank charges and other external costs.
>
> The rate of distribution of purchasing power to individuals is represented by A, but since all payments go into prices, the rate of generation of prices cannot be less than A plus B. <u>Since A will not purchase A plus B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the description grouped under A.</u> ("*The Monopoly of Credit*", page 36, by C.H. Douglas). (*emphasis added*).

There is nothing complicated about this and anyone engaged in industry can test the theorem by examining financial operations in his own industry.
The more mechanized the industry, the greater will be the B costs in prices in comparison with A costs. We can anticipate the explanation of the discrepancy between total prices and total purchasing power by pointing out that in a production unit where automation has been introduced, A costs representing wages are practically nil because there are no employees to draw wages. But B costs, allocated under present financial costing in industry to all capital charges, and overheads, would then constitute nearly total prices. Unless there was distributed to individuals sufficient purchasing power, in some other way, to meet these B charges, then the production from the automatic factory obviously could not be sold.
Although it is probably true that complete automation of the whole production system will never be achieved, with no wages at all being issued to individuals to meet the prices of the stream of production, it is easy to see that there has already been tremendous development towards automation. It is correct to describe the present production system as being semi-automatic with solar energy increasingly providing the power to drive the semi-automatic equipment. Human energy is of comparatively little and decreasing importance in modern production processes. We will examine this matter in more detail in our next lecture.

Most of the comment on the present economic and financial systems is useless and misleading because of a lack of elementary knowledge concerning how these systems operate.

Before one can make any realistic suggestions for modifying or changing any system, one must understand how these systems operate, <u>and also have a definite objective concerning the purpose of these systems</u>.

The following excellent outline of how the present economic and financial system 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 organized 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. <u>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.</u>

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 efficiency 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."

Like other groups of practical businessmen who have objectively examined the actual operations of the present monetary and economic system, (there were the famous London and Southampton Chambers of Commerce Reports during the great Depression, and the Report by a British Rotary Group) the Vancouver Board of Trade pointed out that "<u>the system generates a chronic and increasing shortage of purchasing power in relation to the prices of goods coming on the market."</u>

In answer to those who may say, "But this alleged shortage of purchasing power cannot be true, otherwise there would be a growing pile of unsold production", it is necessary to draw attention again to Douglas' theorem, in which it is stated that this would be the case if it were not for the <u>distribution of "a form of purchasing power which is not comprised in the description grouped under A"</u> - (i.e. purchasing power distributed in wages, salaries and dividends). This purchasing power is created by the banking system, as we have seen, and loaned as an interest-bearing debt for capital production, both private and public, thus immediately increasing the amount of money in the hands of consumers without, <u>at the same time</u>, increasing the supply of consumer goods for sale. But, of course, production is a continuous process and new capital ultimately does produce consumer goods for sale, and into the price of these consumer goods must be charged the capital costs incurred previously. The total result is that the rate of capital expansion must be progressively increased in order to prevent disaster. So, instead of the deficiency of purchasing power resulting in a growing mountain of unsold goods, <u>it is masked by a growing mountain of financial debt, both private and public, issued for capital production, a great deal of which is completely unnecessary to serve genuine individual requirements.</u>

Although increasing indebtedness is the most striking demonstration of the growing discrepancy between the flow of prices and the flow of purchasing power, there are other serious aspects which must be noted. The more highly industrialized a country becomes under present financial rules, the greater the need to have internal public works schemes. Thus we have the startling fact that so long as it is accepted that the purpose of the production system is to provide "Full Employment", the greater the efficiency of private enterprise, leading towards automation, the greater the excuse for governments to have new money created for socialist activities. It is folly to bewail the growing Government direction of the whole economy, the never ending expansion of the vast bureaucracy, and the consequent undermining of responsible Government, unless it is proposed to deal with basic causes.

Another aspect of the internal deficiency of purchasing power is the intense effort to help overcome it by a vast export trade. "The favourable balance of trade" theory simply means sending more production out of the country over any period than is brought in. This reduces the amount of local production for sale while at the same time increasing the money supply. The so-called prosperity during periods of a favourable balance of trade obscures the realities of the situation; that a country exporting more than it imports is suffering a physical loss. The new money created for war purposes from 1959 onwards certainly provided individuals with increased purchasing power to buy those consumer goods available, but from a physical point of view, war production was a loss to the country. It was "given" to the military enemy!

The growing drive for export markets brings the non-Communist nations into increasing friction with one another as they impose tariff and import restrictions. Trade with Communist countries is condoned - even encouraged - by "anti-Communist" Governments under the plea that this helps the internal economy. Communist strategy and tactics are designed to exploit the situation in every possible way.

Not only is it claimed that the highly developed nations can only keep their economies operating by developing backward countries - Communist and non-Communist; when the first Sputniks were launched several eminent economists in the U.S.A. welcomed space projects as a major method of providing "Full Employment" - and, of course, monetary incomes - in America. If Western peoples cannot conceive of a more realistic way of distributing money incomes - created by writing figures in bank books - than by developing a "favourable balance of trade" into Outer Space, it is certain that they are domed to policies rooted in the philosophy of Materialism. The final result must be complete totalitarianism.

There is one final aspect of the present policies of expanding the volume of financial credit which it is important to note. Not only does the progressive expansion of new credits as a debt to the banking system force the individual to engage in wasteful and soul-destroying activities; it inevitably causes total prices to rise. In one of his earliest works, "*Credit Power and Democracy*", Douglas predicted that all policies designed to overcome the growing deficiency of purchasing power by the issue of new financial credit for private capital production, Government Public Works and the development of export markets, must inevitably cause inflation and all the evil results of inflation. Events have confirmed what Douglas said. The Social Crediter is not possessed of some peculiar insight that enables him to predict that so long as present economic and financial policies are pursued, one of the major results must be inflation. He merely pointed out the facts about how the present systems do operate.

The economists now openly admit this too. While politicians, primarily for political reasons, talk about dealing with inflation, the economists like Sir Douglas Copland state that inflation is the "price" we must pay for an "Expanding Economy". The best they offer is that this inflation be controlled. This provides the excuse for high taxation and other instruments of control - by both Socialist and non-Socialist Governments. In a realistic sense, inflation is the price we must pay so long as we accept policies which assert that new financial credits can only be created and distributed through activities which are designed, not to provide the individual with increasing freedom and security, but to make the individual a slave to economics and, through economics, to those who through the monopoly of credit, dictate the conditions under which the individual can live. It should be clear by now why Socialists and Communists oppose any fundamental change in the present centralized control of credit.

In our next lecture we will turn to an examination of the fundamental truths of real economics as a necessary preliminary to the consideration of financial policies reflecting these truths.

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QUESTIONS ON LECTURE 6

Students please note: You are in the final stages of completing this correspondence course. Now is not the time to falter, but to apply yourself even more diligently to obtain a grasp of the basic principles of the financial mechanism. Remember the answers to all questions asked are to be found in the Lecture notes. If you know your notes properly, you will know the answers.

1. In making an analysis of the financial costing system in industry, why is the rate of distribution of purchasing power so important?

2. What would you say is the most important potential result of semi-automation?

3. What do you feel should govern the rate of capital expansion?

4. What are the economic realities underlying America's vast post-war "foreign aid" programmes?

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ANSWERS TO LECTURE 6

1. In analyzing the financial costing system in industry, rate of distribution of purchasing power is important because unless this purchasing power is equated with production rate (a) some goods remain unsold or (b) some purchasing power superfluous if too much. Or (c) inflation would occur.

2. The most important potential result of semi-automation is the release of a proportion of the population from the necessity of industrial employment, or of the reduction of the hours of work for all with the possibility of a widespread spread of the dividend system and a consequent increase of leisure.

3. The rate of capital expansion should be governed by a system which reflects the extent to which the people wish to use their productive resources to supply them with goods and services only as, when and where required.

4. The great economic reality underlying America's vast post-war " Foreign aid" programs is her high state of industrialism coupled with the fact that under the axioms of the world financial system, in America particularly, there is an ever increasing deficiency of purchasing power in relation to the minimum prices necessary even to liquidate production costs only on the home market ,with the result that America is forced among other things to export without equivalent imports to pay producers with export credit created by the banks for this purpose.