Brief Outline of Social Credit

By WILLIAM STONES

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ADDRESS GIVEN TO MEMBERS OF SOCIAL CREDIT TUTORIAL CLASS, 20th JUNE, 1945

By William Stones.

Members of this class will realise that it is impossible to cover all aspects of Social Credit in a single address of, say, 60 minutes; it has taken us 10 lectures to treat the subject with any degree of thoroughness.

My intention to-night is to try and compress into a reasonable space the argument for Social Credit and present it in such a logical sequence that it can be grasped by those who are unfamiliar with it or expanded as desired by those who already understand it.

The study of Social Credit divides itself broadly into two main aspects: (1) The Theory of Social Credit. (2) The Policy of Social Credit. These two aspects lend themselves to further division as we examine them.

DEFINITIONS OF SOCIAL CREDIT.

To start with, let us see if we can arrive at some definition of Social Credit. that will give us an adequate idea of what the term means and so convey a true conception to our hearers.

If we examine the words that make up the term Social Credit we find that "Social" implies the idea of "association," and therefore of co-operation, and that "Credit" implies the idea of "belief."

This has given rise to the widely-accepted definition that—"Social Credit is the belief inherent in society that its individual members in association can obtain the results they want if the results are physically possible."

The English Social Credit Secretariat defines Social Credit as "the POWER of human beings in association to produce the results intended, measured in terms of their satisfaction."

You will notice that this definition of the Secretariat goes beyond the first definition in that it stresses the POWER rather than the BELIEF of human beings in association to achieve the results they want. The difference is really slight; power is implicit in the first definition and explicit in the second.

We recognise that both these definitions emphasise the note of "association." This is a realisation of the fact that a group working in harmony to a common end can achieve much more than could the members of the group working individually.

By working together they gain what is known as "the increment of association," and it is this increment of association that makes the Social Credit. This Social Credit is the power that will give us the results we want.

The definitions we have quoted relate to the philosophical theory of Social Credit, and, though good in themselves, give no indication of Social Credit as a practical reform. Major Douglas, the founder of the New Economics, comes to our help at this juncture.

THE OBJECTIVE OF SOCIAL CREDIT.

When asked to define the objective of Social Credit, he replied: "What are we aiming at? What are we trying to get? We are endeavouring to bring to birth a New Civilization. We are doing something that really extends far beyond the confines of a change in the existing financial system. We are hoping, by various means, chiefly financial, to enable the, human community to step out of one type of civilisation into another type of civilisation, and the first and basic requirement, as we see it of that, is absolute economic security."

This quotation from Douglas, together with the definitions we have given, gives us a clear idea of the Theory of Social Credit. The statement that we are endeavouring to bring to birth a New Civilisation establishes three important points:—

1. That Social Credit is an evolutionary, not a revolutionary Movement. It does not destroy to create anew; it brings in natural sequence a new birth from the old.
2. That it is a Reform of the existing system—a Reform that by various means, chiefly financial, will enable a New Civilisation to come into being.
3. That the first step in Reform must be the establishment of absolute economic security.

A survey of these points confirms the view that, on the practical side, Social Credit is essentially a Reform Movement. Now a Reform Movement presupposes these four things:—

1. An ideal to work from.
2. An objective to work to.
3. A knowledge of the wrong in the thing to be reformed.
4. A means of righting the wrong so as to attain the objective.

THE PHILOSOPHY OF SOCIAL CREDIT.

Major Douglas has stated that "Social Credit is the policy of a Philosophy." This philosophy is represented by the ideals we work from and the objective we work to. This policy embraces the examination of the system we wish to reform and the action we take towards our conscious and recognised objective.

What, then, are the ideals which form the basis of Social Credit philosophy?

Briefly, we can say that it is founded on a belief in the supreme value of human personality, and that the self-development of the individual to his highest possible perfection is the main reason and aim of all social organisation.

It believes that systems are made for men and not men for systems, and that no worthwhile civilisation can be developed that does not provide for the fullest measure of freedom for the individual.

Whilst it emphasises the self-development and importance of the individual it also encourages the fullest measure of co-operation, but it must be the free and willing "co-operation of reasoned assent," the co-operation of inducement, not the enforced co-operation of regimentation or legal or economic compulsion.

Summed up, the ideal is the self-development of diversified individuals in freedom and security, with security as the basis of freedom. It embraces all the fundamental freedoms—freedom from want and fear; freedom of choice, of action, of speech, of worship.

Freedom means freedom in the highest and noblest spiritual sense—not the freedom to which the present system gives lip-service—not the freedom sneered at by the Communist as "a bourgeoise conception"—but Freedom—"the eternal spirit of the chainless mind" that Byron spake of; Freedom that "doth live with children round its knees," in the beautiful thought of Wordsworth.

The ideals we have mentioned also indicate the objective of Social Credit. That objective is a New Civilisation, a civilisation based on economic security, a civilisation in which all the fundamental freedoms are realities, a civilisation of prosperity, culture, happiness and peace.

It is the civilisation visualised by the prophet Micah, 2,000 years ago. "They shall beat their swords into ploughshares and their spears into pruning hooks; nation shall not rise up against nation, neither shall they learn war any more; but they shall sit, every man under his own vine and under his own fig-tree, and none shall make them afraid."

This is the philosophy and the objective of Social Credit.

THE POLICY OF SOCIAL CREDIT.

Let us now turn to the policy that arises from this philosophy of Social Credit, remembering always that policy is action directed towards a conscious and recognised objective.

When we quoted Douglas as saying that the first and basic requirement of a New Civilisation was absolute economic security, it must be evident to us as a Reform Movement that, in demanding a New Civilisation, we must be profoundly dissatisfied with the present one, and that, in stating its basic requirement as "absolute economic security," we must be experiencing economic insecurity.

As we are convinced that we have not economic security, we have to ask WHY? And so our reform has to start from this point. This immediately puts us into the realm of economics and gives direction to our policy to achieve our ends.

What, then, is economic security? It is the possession, or the means to possession, at all times for all people, of adequate food, clothing, shelter and the amenities of modern civilisation. Without this there is no economic security and only a restricted freedom.

The CAPACITY to give absolute economic security resides in the immense powers of production made possible by science and invention. The TITLE to absolute economic security resides in the possession of a sufficient income at all times to buy the goods and services that make it possible.

As we live in a monetary economy (and there is no need to change this), economic security resolves itself into the possession of sufficient money incomes for everybody at all times, irrespective of employment.

This being so, we have next to ask—where do incomes come from? The answer is quite simple. All incomes as purchasing power are distributed into the hands of consumers through the operations of Industry. All purchasing power arises in Production.

It takes the form of wages, salaries and dividends paid directly to individuals engaged in Industry or indirectly from them, through services and taxation, to those not so engaged. There is no other form of purchasing power in the community than this

INDUSTRY AND BANKING.

Now let us go a step further. If Industry distributes all incomes as purchasing power, where does Industry, in its turn, get the money to do this? A brief examination will show that Industry is financed from Savings or from loans or overdrafts from the Banking system.

But as Savings, which are really unused purchasing power, had their origin from previous bank loans to Industry in other cycles of production, it is correct to say that Industry functions almost entirely on loans from the banking system.

It must be remembered that the Banks have discretionary powers to call in loans and overdrafts even before the goods they brought into existence have been sold, and they sometimes exercise this power with disastrous effects on the community.

The banks only lend money as a repayable, interest-bearing debt, with number one priority over the assets of the borrower, so it is clear that the banks entirely control Production in this way.

We have already seen that the money flowing through Industry is the only source of purchasing power, so it is also clear that the banks, in controlling Production, automatically control Consumption as well.

That is to say, the whole economic system is dominated by the banks, and consequently they dominate the lives and destinies of the people and dictate the policies of governments. Australian history proves this conclusively.

Now let us go still another step further and ask where do the banks get the money they lend to Industry and which gives them control of the community.

The answer is again quite simple: THEY CREATE IT. In the terse phrase of the English economist, Hawtrey, "they create the means of payment out of nothing." The money so created is called Bank Credit.

Banks do not lend the money deposited with them by their clients as most people suppose. Every bank loan or overdraft is an absolute creation of new Credit and this Credit functions as Money.

When cheques are drawn against this credit they come back into the banking system and form deposits. Practically all deposits are created in this way. Instead of deposits being used by the banks to create loans, as is generally believed, the loans make the deposits.

The actual creation of Bank Credit is an almost costless operation, as it consists merely of written entries in bank ledgers and made effective by written entries in cheque books. Banking is mostly book-keeping, finance is mostly accountancy, and money is mostly figures.

Though Bank Credit is supposed to be issued against the security of the borrower, it is really issued against the productive capacity and the real or "social" credit created by the community as a whole.

The banks, however, treat this community credit as though they are the sole owners, and are thus in the unique position of being able to lend something they do not own, and of being well paid for it.

As banks have the sole privilege of creating and issuing money in this way, they thus constitute a Monopoly of Credit, which keeps the whole community, to whom the credit rightly belongs, in subjection through debt. The Monopoly of Credit is the greatest power ever vested in any institution in the history of the world.

EFFECTS OF THE MONOPOLY OF CREDIT.

Let us now examine the effects of this Monopoly of Credit on Industry and the community. We find that Industry performs three functions:—(1) It produces goods and services. (2) It distributes the purchasing power to buy its products. (3) It establishes the prices at which its products are sold.

Industry, to be successful, must get back from the public in the prices of its goods more than it pays out to the public in the course of their manufacture, otherwise it could not make a profit.

Now prices consist of all money costs of production, plus the percentage loaded on as profits. Amongst these costs are such items as interest paid to the Banks on overdrafts and money set aside as depreciation on plant and buildings.

Though these costs, representing profits, interest and depreciation, are all loaded into prices, the money to liquidate them is not distributed to the public either as wages, salaries or dividends.

Therefore, prices are, and must always be, greater than the money available to buy them. In other words, there is always a disparity between purchasing power and prices. As can be seen, this is due to accounting all costs into prices without making provision for liquidating all of them.

This is the flaw in the finance-economic system, and is the main cause of all the economic troubles in the world. It is directly traceable to the use of Debt for Money and to the policies and practices of the Monopoly of Credit. Under the present financial system there is no sound means of bridging the gap between purchasing power and prices.

The disparity between purchasing power and prices is further accentuated by SAVINGS. If money distributed as purchasing power is not so used, but is saved and re-invested to produce more goods, its function as purchasing power is lost; it becomes Capital.

The disparity thus becomes greater than ever, and this disparity is represented by goods unsold, or goods that have to be sold by another form of purchasing power than that released in their production.

As a matter of fact, the surplus represented by this disparity can only be sold by one means, and that is by mortgaging future purchasing power; in other words, by DEBT.

There are several ways of doing this. (1) Increased borrowing from the banks for new production. (2) Time payment, hire purchase, cash orders, bills, promissory notes and other similar devices. (3) Spending by Governments of loan monies on public works.

All these methods are based on Debt to the banking system and lead to intolerable burdens of public and private debt and ever-increasing taxation. They must eventually culminate in the breakdown of the economic system and the morale of the community.

We agree with Douglas when he states: "There is no single cause operating in the world to-day which is of such importance and is so fraught with the possibility of world disaster, as is the disparity between purchasing power and prices."

Let us follow logically the results flowing from this disparity. It must be evident at the outset that in every cycle of production a proportion of the goods must remain unsold.

As further cycles are completed the unsold portions must pile up till it is useless and dangerous to produce more for the time being, so banks restrict credit, production slows down, and men are put off.

When men are put off wages cease, purchasing power further diminishes, less goods are sold, credit is further restricted or called in and cancelled. There is a rush to sell below cost and Bankruptcies occur.

Standards of living now fall rapidly; there is further unemployment; dole conditions and acute depression appear; Governments start relief works, and the banks readily lend them the credit they refuse to Industry. Debt and Taxation grow apace.

Still much of the surplus goods remains unsold and we have starvation in the midst of abundance. Goods are wantonly destroyed by deliberate sabotage and production forcibly restricted. With mass unemployment everywhere we are told to work harder, save more, and spend less.

Parallel with these manifestations is the struggle to find markets abroad for the goods that cannot be sold at home. As all nations are doing the same thing, and are in the same economic plight from the same cause, this leads to commercial hostility, international friction, and, finally and inevitably, to WAR.

The sum of all these results of the disparity between purchasing power and prices culminating in War is the world disaster foreseen by Douglas. Only the accuracy of the Douglas analysis could make such a prophecy possible and only the results could so confirm the analysis.

THE SOCIAL CREDIT REMEDY.

Having examined the system and discovered the flaw in it. what is the Social Credit remedy? The remedy must be capable of application and is based on the fact that the powers of production are now so efficient through science and mechanism that we have emerged into an age of potential plenty that will give a very high standard of living to all.

That is to say, it is physically possible to provide the things that will ensure absolute economic security to all. This being so, the factors to be considered are as follows:—

1. That the power to produce must be compensated by the power to consume.
2. That the Monopoly of Credit must be terminated and the right to issue and control all money and credit be vested in the Government as representing the people.
3. That Savings shall not be diverted from their proper function as purchasing power.
4. That Money and Credit be a means of Distribution only and not a commodity to be bought and sold at interest.

5. That provision of purchasing power must be made for those not employed or displaced from industry by labour-saving machinery.

With regard to the last factor, Social Credit is convinced that science and invention will continuously reduce employment. It welcomes this development because it ushers in an age of Leisure that will stimulate culture and self-development.

To resolve these factors Major Douglas has laid down three embracing principles of social and economic reconstruction having an universal application, and out of which can be evolved practical proposals suited to the needs, conditions, and social organisation of each country that decides to adopt them.

Broadly stated they are:—

1. That there must be at all times an equation between purchasing power and prices, and that credit must be recalled only as goods are consumed.
2. That Industry must be financed by Credits created for the purpose and not by Savings.
3. That a social Dividend shall progressively replace wages and salaries as men are progressively displaced from Industry.

THE APPLICATION OF THESE PRINCIPLES.

It will be seen that these principles cover the defects in the existing system, and that within them a solution is provided that is both preventive and remedial. How can we put this solution into practical effect?

The first step will be the establishment of a National Credit Authority to take complete control of the money system and put the affairs of Australia on a proper accountancy basis. This would restore money power to the people and do away with the Monopoly of Credit.

The National Credit Authority would then ascertain from all available sources the financial and economic position of Australia as a business concern and draw up a correct Trading Account and Balance Sheet of the Nation.

As we are a progressive people, with national wealth continually increasing, there would be a considerable credit balance in every accounting period, representing the profit of National appreciation of wealth over National depreciation.

Credit would be issued against the profit balance to establish an equation between purchasing power and prices, pay a social dividend, or meet any commitment deemed necessary for the safety or welfare of the people of Australia.

Once we have established the control of our National Credit the power to do things would no longer be determined by money conditions. Under Social Credit, "what is physically possible is financially possible."

Now let us indicate more definitely how this Credit will be used. It is essential that it must be used to prevent inflation and that it will be applied in the spirit of co-operation.

To ensure this co-operation businesses would be invited to register with the National Credit Authority to trade on mutually agreed margins of profit according to the nature of the business concerned. The profit would be high enough to encourage ample production, but not high enough to permit exploitation.

This arrangement would control prices in a more scientific way than the present method of price fixing, but, in addition, the technique of Social Credit provides a regulating factor that makes price control absolutely effective.

This factor would ensure that the money or credit issued against the profit balance in the nation's books would not only increase purchasing power, but, at the same time, reduce prices.

An example will illustrate how this could be done. Supposing the price of an article were £8 and the purchasing power available £5. The disparity is £3. Credit could be issued to reduce the price by 30/- and to increase the purchasing power by 30/-. Purchasing power and prices would then be £6/10/- and the required equation would be made.

The money to reduce prices would be in the form of a subsidy or discount known as the Just Price or Retail Discount, and the money to increase purchasing power would be in the form of a social dividend to individuals and paid irrespective of employment. Both would come from the National Profit already mentioned and would provide the means of economic security.

The Just Price or Retail Discount would apply only to ultimate consumable goods sold by retailers. At every accounting period the National Credit Authority would publish the discount rate and retailers, after charging all their costs into prices, would then sell their goods less the amount of the discount. They would actually sell them at less than financial cost.

The retailers would then present their authorised vouchers to their local banks, which would credit them with the discounts allowed. The banks, in their turn, would be recouped by the National Credit Authority out of the National profit. The banks would be adequately compensated for the services rendered.

A portion only of the National profit would be used in this way; the balance would be used to pay the social dividend and any other services considered expedient.

By this method of selling below financial cost the consumer's money would have increased buying power and all goods could be sold without loss to the producers. Inflation would be impossible and all the economic uncertainties of boom and slump incidental to the present "trade cycle" would disappear. The economic system would be stabilised.

Under Social Credit, borrowing for National purposes would be unnecessary; public works could be constructed without debt and production financed without interest. The National Debt could be gradually paid off, interest charges abolished, and taxation, as a means of revenue, eliminated.

With adequate incomes in the hands of the people at all times Savings need not be put aside for a precarious future, but used as purchasing power in the present. Consumption would become the dominant factor in the economic system.

The most effective "planning" in the world is adequate money in the hands of consumers. Having effective demand in this way, they could give the necessary orders and Industry would be enabled to function to the limit of producer capacity or to the limit of consumer demand, whichever occurred first. The standard of living would thus rise to untold heights.

With economic security assured, the struggle for markets abroad and the conditions that lead to depressions at home would be ended and the New Civilisation of freedom, peace and prosperity be, at long last, brought to birth.