Social Credit Text Book

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By William Stones

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Published by the Social Credit Movement of New South Wales, 88 Pitt Street, Sydney, and the Leisure Age Publishing Co. Pty. Ltd., 209A Castlereagh Street, Sydney, acting in conjunction.

CONTENTS.

FOREWORD.

In August, 1943, the Social Credit Movement of N.S.W. established a Tutorial Class for students who wished to acquaint themselves more fully with the philosophy and principles of Social Credit and their application as a financial and economic reform for Australia.

Mr. W. Stones was appointed as tutor, and the lectures given by him to this class were at first circulated privately as a simple text book for students. It is now felt by the Social Credit Movement that these lectures merit a wider audience, not only amongst Social Creditors, but amongst the community at large.

Though prepared, in the first place, for Social Credit students, the lectures are presented in such a way that the general reader should gain from them a clear light on the working of the present financial system, the nature of the fundamental flaw in it and the Social Credit remedy.

The economic problem is the major concern of our age, and on its correct solution depends, not only the security of mankind, but the future of civilisation itself.

I consider that Mr. Stones has done a signal service in stating so clearly and concisely the fundamentals of Social Credit, as revealed by the genius of Major C. H. Douglas. In his concluding lecture Mr. Stones states:

"Personally, I believe that a persistence in the present financial system means the doom of civilisation as we know it. The visible alternatives are Communism and Chaos; the real alternative is Social Credit."

I am very happy about this little book, and sincerely recommend it to all who are seeking the right way out of the present discredited system, but who are uncertain as to which road to follow.

LILLIE BEIRNE,
Secretary, Social Credit Movement of N.S.W.

FIRST LECTURE.

The Economic Basis of Society.

In extending a welcome to you all I wish to state that I have neither the desire nor the capacity to act as a Professor of the New Economics, nor that you should regard me as such—I am one of yourselves.

Some of you, no doubt, have come here in the hope that this class may help to equip you as public speakers and lecturers; others of you have come to make yourselves better acquainted with the principles and technique of Social Credit.

You have convinced yourselves of its essential truth, but you find that there are aspects in it to be clarified, doubts to be dispelled, difficulties to be explained and overcome. I am hopeful that the class will prove helpful in this way.

I am also hopeful that out of this cass will emerge speakers and propagandists for Social Credit. The need for them is great. At this very moment the flood of economic and financial nonsense poured out by candidates for Parliament emphasises the urgency for more enlightened thinking and acting if we are to make Australia a great country and bring in a new order that will be better than the present one.

Some people have prepared elaborate blueprints for the New Australia, but we know that, under the present financial system, they will never be converted to reality. They must remain dreams and the shadows of dreams. Personally, I can see no real road to security and prosperity but the Social Credit road.

We want in our public life a new outlook, a new conception of what can be done by utilising the forces released by science and knowledge, and applied to the welfare of our country.

Our best service to Australia is to stimulate the spread of Social Credit ideals and principles of social reconstruction, rekindle past enthusiasms, and dedicate ourselves more fully to the great economic truth we have been privileged to embrace.

Social Credit is often spoken of as the New Economics to distinguish it from the orthodox Political Economy of Adam Smith and John Stuart Mill. But Social Credit is more than Economics; it is a great Light and a great Truth. Indeed, it is a Philosophy of Living.

When you become fully convinced of the truth of Social Credit you are impelled to preach a new gospel so that others who sit in darkness may see the light that has illumined you and given you faith and hope for the future of mankind.

Orthodox Economics, which deals with the management of man's material affairs, has been called the "dismal science." Nearly everyone agrees that it is "dismal," but few would agree that it is a science.

That is, it is very far from being an exact one; it is more of an inquiry into certain aspects of material affairs and often rests on assumptions that have no relation to facts.

The reason it is "dismal" is that it is dead or moribund.

Social Credit Humanises Economics.

But if we clothe the skeleton of Economics with living flesh; if we humanise it, make it what it should be—an examination of the circumstances of our daily lives, the reasons why we are poor or rich, employed or workless, well fed or undernourished, free to choose or regimented to serve, armed for war or stripped for peace—in short, the why and wherefore of how we live and move and have our being—then economics becomes one of the most vital and engrossing studies that can occupy our minds and give direction to our activities.

It is this humanistic and realistic approach that makes the New Economics of Social Credit so attracitve. The great fact about it is that it is something you can fervently believe in, something you can subscribe to with all your heart and mind. To embrace Social Credit is a personal economic conversion that marks the beginning of a new life.

The study of Economics becomes real when we bring it down from abstractions and generalities and apply it to Tom Jones and Bill Smith, whom we know as neighbours, and show that their health and happiness, their lives and destinies, as well as our own, are governed by economic arrangements, of which most of us are unaware and almost all of which are outside our control.

But Tom Jones and Bill Smith are aware that they have to put up with many things that should be unnecessary, things like uncertainty of employment, low standards of living, fear of the future, bad housing, inferior food and clothing, the recurring threat of depressions and wars, lack of holidays, recreation, education and culture for themselves and their families.

They are aware that they live narrow and mean lives instead of the broad, good lives that should be possible in a world of science and abundant production.

But they do not know what to do about it. They are so deliberately and consciously uneducated and miseducated that they blame politicians because no reform ever comes out of the changes of parties they keep sending to Parliament. They accept conditions as something that must be endured because, apparently, they cannot be cured.

All these ills are due to an economic system that is not functioning properly. They are not inevitable, and they can be prevented and they can be cured. Orthodox Economists deny this and assert that the troubles of Tom Jones and Bill Smith are due to economic laws that cannot be changed. This contention cannot be upheld; **there are no such things as immutable economic laws.**

What are called so are conventions and practices operating in certain periods of economic development, but which are being constantly outmoded by the march of events and the tempo of progress.

Unfortunately, the mind of the average economist lags behind the march of events, and his out-of-date outlook, which refuses to recognise progress or the need for adaptation to changed conditions, and insists that the conventions of a past age should still govern the present, is the cause of many of the world's economic problems.

More unfortunately still, these economists are regarded as experts, and in times of crisis are called in to advise politicians who have no economic knowledge whatsoever. We saw in the great depression, and we are seeing it to-day, the tragic effect of this blind leading of the blind, and the dire national and individual consequences of such leadership.

Recognition of these theories of reaction gives rise to reform movements, and the folly of trying to impose the conventions of an age of scarcity on an age of plenty is the reason for the spread of the ideas of Social Credit.

Social Credit Defined.

What, then, is this thing "Social Credit," and how shall we define it? From derivation the word "social" immediately suggests "association," and the word "credit" suggests "belief." These in combination give rise to the widely accepted definition of Mr. L. D. Byrne that **"Social Credit is the belief inherent in Society that its individual members in association can obtain the results they want."**

This definition has been elaborated by the Bureau of Information of the Albertan Government as follows: "Social Credit is not just a scheme of monetary reform, as some people seem to think. Social Credit—'the credit of Society'—is the motivating power which arises from the belief (credo) inherent in Society that its individual members in association can obtain the results they want, if the results are physically capable."

C. H. Douglas himself makes little attempt to define it, but has stated: "In my opinion, it is a very superficial definition of Social Credit that it is merely a scheme of monetary reform. . . . Social Credit is the policy of a philosophy. It is something based on what you profoundly believe . . . to be a portion of reality." In this connection Douglas defines policy as "action taken towards a conscious and recognised objective."

In a course of lectures issued by the Social Credit Secretariat in England, Social Credit is defined as "the power of human beings in association to produce the result intended, measured in terms of their satisfaction." In other words, the "increments of association" build up the Social Credit.

I do not intend to spend any time in elaborating these definitions. They are quite sound from the abstract and philosophic point of view, but, to my mind, they are not close enough to the reality emphasised by Douglas for the purposes of this class.

There is a real danger in refining and defining so much that Social Credit becomes an abstraction. We must avoid this at all costs.

Social Credit Aims at a New Civilisation.

For better or worse the term is inseparably connected with the name of C. H. Douglas, and if we are to define Social Credit to the public we cannot escape this connection. It is too many-sided a subject to define in a phrase and perhaps we can arrive at a clearer meaning of Social Credit if we listen to Major Douglas's own statement of the objective that he and his followers are striving to reach. He says:

"What are we aiming at? What are we trying to get? We are endeavouring to bring to birth a New Civilisation. 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 statement of Douglas emphasises three things—

(a) The objective of a New Civilisation; (b) The means, chiefly financial, of securing it; (c) The first requirement, Economic Security.

If we are to obtain an adequate conception of Social Credit I think we must look at it from the aspects indicated in this statement.

Firstly, it is a philosophy (viewed from the angle of economics, if you like, but still a philosophy); secondly, it is a sweeping reform aiming at a New Civilisation; and, thirdly, it is a policy ("a policy of a philosophy") involving a technique, to make this objective possible.

You will see by this that the Movement for Social Credit is fundamentally a reform of the existing system with the object of establishing a new and better civilisation. The action taken towards this conscious and recognised objective is the Social Credit policy. Our concern, then, in this class, is to make ourselves acquainted with this reform and this policy in all their aspects.

Let us begin by asking ourselves whether we have reasonable claims to justify ourselves as a Reform Movement. Before we can honestly suggest sweeeping changes in an Economic System we must have an adequate knowledge of the policy and results of that system. We have no justification whatever in demanding changes unless we are intensely dissatisfied with things as they are, know why we are dissatisfied, and are aware of the things we want to alter.

I think we can answer this question put to ourselves in this way:

1. We have studied the present system and know its results.
2. We are thoroughly dissatisfied with several of these results.
3. We know the **results** we want.
4. We know **why** we do not get them.
5. We know **how** to get them.

The Five Prerequisites of a Social Crediter.

If we take these five reasons and examine them fully we should acquire a very good knowledge of the theories and aims of Social Credit. As a preliminary let me sum up these reasons in a few words:

1. It is because of our knowledge of the present system that we wish to change it. If we have not this knowledge we are not fit to criticise it. All reform must be based on knowledge and harmonised by reason and justice. So-called reforms arising out of prejudice, ignorance or hatred are self-destructive; they may cause change or revolution, but reform—never.

2. Because of knowledge, observation and experience we are thoroughly dissatisfied with certain results flowing from the present system. Poverty amidst plenty, the growth of economic servitude, the curtailment of personal freedom, the burdens of debt and taxation and many others could be mentioned. We do not want these things.

3. We want economic security from the cradle to the grave. We want personal freedom and the chance to expand our indi-

viduality. We want prosperity; we want a high standard of living; we want leisure; we want peace.

4. We know we cannot get these results because of a faulty economic system by which the capacity to produce in abundance is frustrated by an anti-social creation and control of the means of distributing the abundance. We know the fault does not lie in Production, but in Distribution, which is Money.

5. We know that this fault can be overcome by the necessary financial adjustments and that this reform can bring in a New Civilisation without revolution and without bloodshed. The only revolution necessary is a mental one.

If you agree with the five reasons I have just enumerated I think you will agree that our lectures should have the following sequence:

1. An examination of the present system and the functions of Production, Consumption and Distribution.
2. Examination of the means of Distribution—Money, Credit and Banking.
3. The Douglas Analysis to show the flaw in the existing system.
4. The Douglas Remedy.
5. The application of the remedy and perhaps a summary of the previous lectures.

This should spread the lectures over at least six sessions, including this preliminary lecture, which is meant to clear the ground.

In the balance of time left to us this evening I intend to make some remarks that will serve, I hope, as a suitable introduction to the lectures that are to follow.

Man's Age-long Fight for Freedom in Security.

If we are to have an adequate idea of how the present economic system works we must realise that it is a system that has its roots in the distant past and bears the marks of its long period of growth.

It is a living thing that has passed through various stages of development, carrying with it things helpful and unhelpful, continually putting out new growths bearing new fruit, and still keeping withered branches that should have been lopped away.

The growth of the economic system runs parallel with the growth of civilisation and makes the history of mankind. This history shows that man has waged an age-long fight against nature to obtain the means of life and against his fellow-man to obtain and maintain freedom and security.

Material scarcity was a spectre continally facing him because he had not the knowledge and equipment to produce abundance. For thousands of years want and starvation were only a few lengths behind man in his race for existence, and when droughts, floods and pestilences thwarted his efforts they overtook him.

The growth of population pressed unceasingly against the means of subsistence and was the chief cause of the mass migrations from the older to the newer worlds and the savage wars that arose out of them. During all this period local civilisations came into being, waxed, waned and disappeared.

And still the struggle went on. Wars against nature and oppression were the continuing chapters in the martyrdom of man, and the history of civilisation is one long struggle for freedom and security. **This struggle is not yet ended. Victory has still to be won.**

If we compare the records of ancient civilisation such as Egypt, Greece and Rome with that of Europe up to 150 years ago we are struck with the fact that progress was almost static for more than 2000 years.

In all that time the methods of agriculture scarcely changed. Industry was mostly handicrafts. Transport was still the horse and the sailing ship. Energy, apart from the wind, was purely muscular of man and beast. News and communications were primitive, and commerce was limited by the lack of means of exchange.

Then in the course of a few years all was changed. Progress, after being stationary for thousands of years, began to march, slowly at first, but with gradually increasing momentum, till the rate to-day has completely changed the world.

We have advanced 10 times as fast in 150 years as we did in the previous 2000 years, and the advance becomes more rapid every year. The miracles of to-day become the commonplaces of to-morrow and the future cannot be envisioned.

The causes of this remarkable change were many and cumulative, but outstanding were the spread of education and the development and application of science and invention to material ends. The minds of men, liberated from the old classical tradition of education, became concerned with things realistic and practical rather than speculative.

Every new invention and discovery paved the way for further invention and discovery till the forces of production became so powerful that scarcity could have been banished from the world. Man had emerged from his age-long struggle against nature and abundance was now possible for the first time in history.

Discoveries that Changed the World.

The invention of the steam engine and its adaptation to industry and transport was the greatest revolutionary factor in the new world of progress. This method of harnessing solar energy made possible the mass production of factory-made goods in place of the meagre output of the home industries, and its use in railways and ships vastly increased the flow of raw materials and manufactures that make up Commerce.

It extended markets, created industrial cities, stimulated scientific inquiry and paved the way for those developments from oil, electricity and chemical research that have revolutionised production and altered the whole economic structure of the world.

Before the industrial revolution, of which I have just spoken, economic theories were based on the mercantile system, which was a system of protection, with strict Navigation Acts, bounties, control of wages and hours, and an emphasis on nationalism and the idea that money was wealth.

At the time Watt invented the steam engine, Adam Smith wrote his book "The Wealth of Nations." This famous work destroyed the ideas of mercantilism and spread the teachings of laissez-faire or individualism. The application of its teachings at the time of the industrial revolution changed the course of history and made possible the great international development of trade and industry.

Another economist, named Malthus, writing at about the same time as Adam Smith, became famous for his theory that population always increased faster than the means of subsistence, and that eventually world population would be limited by starvation.

This theory was justified by the knowledge available at that time, but has since been falsified by the conquest of scarcity.

Just as the teachings of Adam Smith were necessary to meet the conditions of a new economic era, so is it necessary to have a new economic concept to meet the needs of a Machine Age—a scientific Age of Plenty. **We have in the writings of C. H. Douglas the answer to this need, and "Economic Democracy" will be as dynamic as the "Wealth of Nations."**

Whilst man's struggle against scarcity was being waged, what of the parallel struggle for freedom? Many victories were won, but as one form of despotism was conquered by the free spirit of man another always reared its head. Magna Carta, Habeas Corpus, the Bill of Rights, are all triumphs of freedom. Tyrannies of Kings, of Feudalism, of the Church, of Classes, all had to be overthrown, but Freedom is not yet safe. **To-day we feel the powerful tyrannies of Finance and Bureaucracy, and, in a total war to establish freedom, we suppress freedom.**

The Objective of Social Credit.

Social Credit is vitally concerned with these things. The objective of Social Credit is **Freedom in Security**, and because economic security is the first and basic requirement of a New Civilisation we lay emphasis on that.

But freedom and security are one and indivisible, and there is no system but Social Credit that recognises this essential fact.

Let us now take a rapid glance at the main features of the economic system for the past 150 years—that period known as the Machine Age. It is from that period that we derive most of our facts and theories that constitute political economy, and we must know something of the impact made on social organisation by the application of science to industry. The story of Britain in the Machine Age best serves our purpose.

The outstanding feature was the growth of industry itself. From trade guilds and handicrafts the factory sprang into existence. Population, before chiefly rural, became concentrated into industrial cities close to coal, iron, water and transport, where the people were housed in jerry-built, ugly and crowded areas that rapidly became slums. This had, and still has, an appalling effect on the health and physical standards of the factory workers.

Industry, at first, was in the hands of individuals, men who had the gift of organisation and the capacity to exploit cheap labor. Profit became the driving motive, and many of these captains of industry became immensely wealthy. It was an age of competition, with the devil taking the hindmost as a business philosophy, and success, measured by money, the standard by which life and social standing were judged.

The factors that made for rapid industrial development in Britain were its long start over other nations in invention, its freedom from war and the rapid expansion of **Bank Credit.** Under the stimulus of these things production increased so rapidly that the British market could not absorb it and a new outlet had to be found.

At that time the world was an open market because the older countries were occupied with wars and the newer lands were in the pioneering stages. Consequently the world trade in exports fell into British hands.

To finance this new export trade credits had to be established through the banking system. In other words, Britain sold goods to foreign nations and at the same time lent them the money to pay for them.

In this way Britain became the chief creditor nation and the money centre of the world.

This development was made easy by the fact that Britain was mistress of the seas and controlled the seaborne trade of the world.

Though Britain thus became very wealthy and powerful, the great mass of the people were in poverty and their living standards deplorable. This was conveniently forgotten by politicians and economists, and all policy was directed to ensure a maximum import of raw materials and a maximum export of finished goods.

The Home Market versus the Export Market.

This devotion to exports was an outstanding feature of the industrial age, and still obsesses the minds of those in authority. **They still fail to recognise that the best market is the home market, providing the people have sufficient purchasing power to make that market effective.**

By the nature of things this control of world markets by one nation could not last indefinitely. Britain not only exported finished goods but, in her haste to make more profits, she exported the machines that made them.

Other nations were quick to follow her example and improve on it. They put these British machines and many home-made copies of them into production, also for export, and retained their own raw material.

Then began the struggle by the new producing nations for a place in the world markets monopolised by Britain. Nations began to erect tariff barriers, make reciprocal trade treaties and subsidise their own shipping and exports.

Every device was tried by rival nations to protect their internal and extend their external markets. Trade rivalry developed into naval and military rivalry, and the inevitable result was **War.**

The 1914-18 world conflict was basically an Economic War arising out of the struggle for markets. The present war is also an economic war, arising out of the struggle for "living room" and raw materials. The growth of totalitarianism and dictatorships, though apparently political and racial, comes from roots planted deep in economic soil.

What I have just said brings home the fact that economics cannot be isolated from other portions of the social structure, but is being continually influenced by them and giving out its own influence in return.

Politics, race, religion and economics act and react so closely that it is impossible to draw dividing lines. For instance, England had always a greater measure of religious and political freedom than Europe, and in the 17th and 18th centuries thousands of refugees found asylum in England, bringing with them precious trade secrets as well as a leaven of character and industry.

These laid the foundations of many of England's greatest manufactures and helped largely in the economic development of their adopted country. Free Trade in Britain, Fascism in Italy, Nazism in Germany, Socialism in Russia, are political manifestations of economic conditions and also economic manifestations of political theories.

The export policies of Japan and the tariff struggles in the United States and Australia come to our minds as showing the close relation of economics and politics.

There are other factors, psychological and biological, in economics that I have not time to dwell on. I merely mention them to show that we cannot put economics in a separate social compartment and divorce it from other human affairs. **True economics is saturated with humanity.**

The Growing Dominance of the Banks.

During the struggles between nations for markets their internal economies were undergoing great changes. Individual industrialists began to find that unrestricted competition amongst themselves was often a form of business suicide.

It was better to avoid such competition by amalgamating their common interests, and so monopolies were born. This, in turn, demanded larger and ever larger issues of capital and ever-growing recourse to overdrafts from the Banks for working expenses.

The powers of the Banks, which alone had the right to create financial credit, grew rapidly with this change and became the dominating factor in business. Industrial Capitalism gave way to Finance Capitalism, and this is now universal in all democratic countries.

It was early recognised by great financiers and bankers that the control of industry and of the nation itself resided in the Banking System, and that the power of creating, regulating and controlling Bank Credit made them a hidden government, practically overriding and controlling every activity of national life.

This great fact, with its tremendous implications and effects, was kept as secret as possible from the public and was, for obvious reasons, denied by the Banks themselves. Most economists and politicians do not seem to have discovered it to this day, and, except for Money Reformers and Social Crediters, it is, more or less, a secret still.

With the growth of trade between nations and the need for adjusting the necessary means of exchange, Banking became international in its operations, and the great Banks of the world became related organisations functioning to their mutual advantage.

This international co-operation of the Banks had a parallel influence on the monopolies they controlled through overdrafts and interlocking directorates.

These industrial monopolies became international also, and one of the features of to-day is the giant cartels and combines controlling key industries in all countries and levying tribute in peace and war from friend and enemy.

Australia is within the ambit of these industrial and financial forces, and we must be blind if we cannot see them in operation everywhere around us.

The system I have been describing is often spoken of as the system of private enterprise, or Capitalism. This is not the place to discuss its merits and demerits, but arising out of this system are certain manifestations that cannot be disregarded.

The disparity between the great wealth of the Industrial Capitalist and the appalling poverty of the workers under the system became rapidly obvious and gave rise to bitter and justifiable discontent. The exploitation of men, women and children in the earlier stages of the industrial period makes one of the blackest pages of history.

From a humanitarian point of view the system stood condemned, and there was much revolt against its economic servitude. Out of this revolt arose the Trades Union Movement, the regulation of child labor, the Factory Acts, the fixing of hours and wages, and, on the intellectual side, the theories of Socialism and the gospel of Karl Marx.

These warring interests have never been reconciled and harmonised, and to-day we stand in a world of economic conflict in which the contending forces of Capitalism and Communism are striving for mastery. **From our point of view it will be a tragedy for either side to conquer. We believe that salvation lies along the middle road we are following—the road of Social Credit.**

When we realise that the age of abundance has arrived, giving full and plenty for all, we know that we can have that absolute economic security which is the first step along the road to the New Civilisation.

We can secure that first step, not by a revolution of force, but by the simple expedient of making money and credit the true reflection of material facts and using and controlling them for the benefit of the whole community.

How to do this we hope to learn in the lectures that are to follow.

SECOND LECTURE.

The Principles of an Economic System.

You will remember that I stated in the opening lecture that, before we can reasonably suggest changes in an economic system, we must have an adequate conception of the principles and policy of that system. We have no justification whatever in demanding a change unless we are intensely dissatisfied with things as they are and know why and how we must alter them.

Therefore, to-night, let us try to obtain a correct view of a proper economic system, and in the light of that ideal see if we can isolate the causes that prevent it from functioning satisfactorily.

In the first place, let us get our terms right. In a modern world what is known as the "Economic System" consists of three allied social activities, known as Production, Consumption and Distribution. I will try and define these terms as simply as possible.

PRODUCTION is the term applied to all those processes and activities of industry whereby things are changed from one form to another so as to make them available as goods and services for consumption. In simple words, Production is the making of things for use.

True Production, in a properly functioning State, is only limited by the total needs of the community and the materials available, **but, under the existing system, Production is limited by its ability to sell—that is, by the effective purchasing power in the form of money in the hands of consumers.**

CONSUMPTION is the term applied to the process of utilising the goods and services provided by Production. Again, in simple language, Consumption is buying things for use.

True Consumption, in a properly functioning State, is only limited by the satisfaction of the total needs of the community or by the total capacity of industry to produce, but, under the existing system, **Consumption is limited by the community's power to buy**—that is, by the effective purchasing power in the form of money in the hands of consumers.

DISTRIBUTION is the term given to the process of transporting goods and services from Production to Consumption. The vehicle of this transportation is Finance. Once more, in simple language, Distribution is Money.

True Distribution, in a properly functioning State, would transport all goods and services from Production to Consumption, but, under the existing system, Distribution is limited by the amount of direct incomes liberated by Bank Credit through the processes of Industry.

These three great social activities, which, taken together, form the Economic System, involve the whole of man's material interests, and, as man's material interests affect all his other interests—cultural, moral, spiritual and social—**it is evident that a proper functioning of the economic system has the most profound influence on the course of human life and the nature of civilisation.**

The Sole Purpose of Production is Consumption.

What, then, is the function and purpose of an Economic System? Adam Smith, the first great economist, said: "Consumption is the sole end of Production."

Arthur Brenton says: "The true purposes of an Economic System are:

(1) To bring into existence the largest possible quantity of consumable goods;

(2) To transfer them out of the industrial system into the homes of private individuals as fast as they are made.

"All production, of whatever things, must necessarily end in the appearance of consumable articles or services. If not, the efforts put forth in producing are meaningless waste. Therefore, whatever lessens the consumption of consumable things lessens the production of everything else, whether it be some constituent of them or simply a means of making them. No Consumption, no Production.

"The only reasonable economic excuse for a pause in production would be either—(a) that the industrial system was already working to its fullest capacity and could produce no faster, or (b) that the customers of that system, i.e., the community in their role of private individuals, had got all the things they desired and did not want any more."

Douglas says: "The objective of an industrial system is to deliver goods and services to the individuals included in the nation or other corporate body to which the system is attached, with the minimum amount of trouble to those individuals."

In another place he says: "The ostensible objective of Industry is the production for use of goods and services to an extent rendered possible by the progress of the industrial arts."

John Ruskin, who wrote "Unto This Last" more than 70 years ago, sums up his eloquent argument on the subject in these memorable words:

"Consumption is the crown of Production; and the wealth of a nation is only to be estimated by what it consumes. . . . It is, therefore, the manner and issue of Consumption that are the real tests of Production. Production does not consist in things laboriously made but in things serviceably consumable, and the question for the nation is not how much labour it employs but how much life it produces. For, as Consumption is the end and aim of Production, so Life is the end and aim of Consumption. . . . . There is no WEALTH but LIFE. Life, including all its powers of love and joy and admiration. That country is the richest which nourishes the greatest number of noble and happy human beings."

I think you will agree that these statements of Adam Smith, Brenton, Douglas and Ruskin express correctly the purpose and function of an economic system in the widest and truest sense, and I think you will agree also that the existing system definitely fails in achieving this purpose.

I think you will also recognise that these are the Social Credit conceptions of an Economic System and embody the objectives for which we are striving. You will further recognise that Production and Consumption should be the important things and Consumption the most important. It is vital to a proper understanding of the subject that you should appreciate this view, because Social Credit is meaningless without it.

How the Economic System is Frustrated.

Consumption is the expression of human needs and human demands, and Production is the response to them. Supply comes after demand and is created to satisfy demand. Consumption gives orders and Production fulfils them. That is the proper order of things, but we find a different order under the existing system.

Instead of Production and Consumption being the important things and Consumption the all-important thing, we find that Distribution completely dominates both Production and Consumption. As I said before, "Distribution is Money"—and Finance, which is the agent of Distribution, now exercises unchallenged control over the whole economic system, and, therefore, over the lives and destinies of the individuals of the community and of the nation itself.

Instead of the beneficent agent that would enable Production to find its crown and completion in Consumption, Finance has become a tyrannical master that has frustrated the true purpose of an economic system by controlling it for social power and money profit.

I do not think there can be any doubt in your minds that this is a true statement of things as they exist to-day, and that this state of affairs is a justification for the changes we suggest and the reform we demand.

It follows from what I have said that, as Distribution is the dominant factor in the existing economic system, the principles and policies governing that system are resident in the control of Distribution—that is, in Finance. Now, whilst we recognise that Distribution is an integral part of the economic system, we must also recognise that Finance is a system complete in itself.

It is a system that is world-wide, and, as its control of the economic system is absolute, it is in all respects a government, and doubly powerful because it is a hidden government. Control implies government and government implies control, and both imply policy.

Now, C. H. Douglas has laid down very definitely that there are only three alternative policies in respect of a world-economic organisation.

"The first is, that it is an end in itself for which man exists.

The second is that, while not an end in itself, it is the most powerful means of constraining the individual to do the things he does not want to do; e.g., it is a system of government. This implies a fixed ideal of what the world ought to be.

"And the third is, that the economic activity is simply a functional activity of men and women in the world; that the end of man, while unknown, is something to which most progress is made by the free expansion of individuality, and that, therefore, economic organisation is most efficient when it most easily and rapidly supplies economic wants without encroaching on other functional activities."

In setting out these alternative policies, Douglas makes this emphatic comment: "You cannot spend too much time in making these issues clear to your minds, because, until they are clear, you are not in any position to offer an opinion on any economic proposal whatever."

The Tyranny of Government.

As Douglas is so insistent on the proper understanding of these issues, we cannot pass them over lightly. They are vital, because they introduce a new and larger approach to the subject and associate the whole field of economics with philosophies and the policies that arise out of them.

Since Douglas delivered the speech at Swanwick in 1924, from which these extracts are taken, they have become still more vital because the struggles to maintain the first and second of these policies of world-organisation are shattering the world to its foundations at the present moment. Let us examine them.

The first is: "That it is an end in itself for which man exists." The policy that embodies this philosophy has been given the general name of Totalitarianism. This term covers, more or less, Socialism, Communism, Fascism, Nazism, Co-prosperity and the "planned economy" visualised by certain powerful groups in the so-called Democracies.

The objective of Socialism is expressed by the Socialist Party of Great Britain as: "The establishment of a system of society based upon the common ownership and democratic control of the means and instruments for producing and distributing wealth by and in the interests of the whole community."

In Italy, Alfred Rocco, Minister for Justice under Mussolini, stated: "The Fascist conception of the State is all-embracing; outside of it no human and spiritual values exist."

This is also the conception of National Socialism in Germany.

Totalitarian policies are operating over vast areas of the world to-day, and under them there is almost a complete suppression of personal liberty. Law and justice, as we know them, have almost ceased to exist and have degenerated into a reflection of the policy of those in control and the dictates of expediency.

Compulsory work to ensure economic security has become the substitute for freedom, and compulsion and regimentation for the right to choose and co-operate.

Government, no matter how camouflaged and idealised, has developed into a tyranny at one end and servitude at the other. To make this acceptable, education is controlled from the earliest stages of childhood and directed into strictly confined channels, so that the conception of a State supreme over the individual becomes an ideal and an idea fixed in the community.

Social Credit Insists that the State was Made for Man.

Results at first may appear to justify this philosophy and policy. The reaction against the supplanted system, the mesmerism of new leadership, the power of propaganda and the urge to surpass the efforts of opposing policies may achieve a certain spectacular success. This success is ascribed to policy, but it is really due to something over and above policy—to patriotism and the love of the fatherland. **But no success can be permanent that does not spring from the free spirit of free men;** it is a fire that burns itself out.

If the whole world were organised on a Totalitarian policy and the spur to personal incentive and competition removed, individual initiative would atrophy and self-development cease; there would be mass production, mass culture, mass thinking and mass uniformity. Freedom would no longer exist, and a privileged bureaucracy would be in control of a servile universe.

Social Credit is entirely opposed to this philosophy and policy.

The second policy is: "That, whilst not an end in itself, it is the most powerful means of constraining the individual to do the things he does not want to do—e.g., it is a system of government." This is the policy that dominates all democratic governments and economic systems functioning in them, and **the constraining means is the existing Financial System.**

Douglas says: "Beyond question, the economic system, which is dominated by the financial structure of banks and insurance companies, is an unofficial and temporarily all-powerful government, neither elected nor subject to effective criticism, the embodiment of the concept that externally imposed restraint is the first condition of a stable society."

This is the policy Australia has been functioning under since its foundation. Under it we have freedom in name but not in fact; our freedom to choose is entirely limited by economic conditions. We are free to work or not to work, but as the right to live depends on work, such freedom is worthless.

In a monetary economy, where the right to live depends on the possession of money, and the possession of money depends on employment, it is clear that our personal liberty is dominated by economic compulsion. We are constrained to do the things we do not want to do, and so become almost as much enslaved as under the first policy.

In some respects the enslavement is worse. Under a Communistic regime there is at least some guarantee of economic security in the shape of food, clothing and shelter, even if personal liberty no longer exists.

But under the constraining power of economic compulsion there is little freedom and no economic security at all. The history of the Depression all over the world is tragic witness to this fact.

Social Credit is entirely opposed to this policy also.

The Policy of the Social Credit Movement.

The third policy is: "That the economic activity is simply a functional activity of men and women in the world; that the end of man, while unknown, is something towards which most rapid progress is made by the free expansion of individuality, and that, therefore, economic organisation is most efficient when it most easily and rapidly supplies economic wants without encroaching on other functional activities."

This is the policy of the Social Credit Movement—the policy of the true economic system we are striving for. Implicit in it is that objective **of Freedom in Security which distinguishes Social Credit from every other system. Implicit in it also is a recognition of an age of Plenty and a policy that provides for a full use of the heritage of civilisation for the service of man.**

It regards work, not as the be-all and end-all of existence, but as a functional, economic activity of man, and welcomes leisure that will allow for the full development of individuality and the free play of the human spirit.

It recognises that, in a modern world, economic security is the basis of all liberty and the first step towards a newer and better civilisation. Economic organisation on these lines is not only the most desirable, but the most efficient.

The emphasis on the development of the individual in the march towards a New Civilisation runs through all Social Credit philosophy, and I cannot do better than quote Douglas' words in this connection:

"If any condition can be shown to be oppressive to the individual, no appeal to its desirability in the interests of external organisation can be considered in extenuation; and whilst co-operation is the note of the coming age, our premises require that it must be the co-operation of reasoned assent, not regimentation in the interests of any system, however superficially attractive.

"Systems were made for men and not men for systems, and the interest of men, which is self-development, is above all systems, whether theological, political or economic. Therefore, all forms, whether of government, industry or society, must exist contingently to the furtherance of these principles.

"If a State system can be shown to be inimical to them—it must go; if social customs hamper their continuous expansion—they must be modified; if unbridled industrialism checks their growth, then industrialism must be reined in. That is to say, **we must build up from the individual, not down from the State."**

That is the philosophy of Social Credit, and the policy of this philosophy has not yet been sponsored by any Government or any community except Alberta. It is a policy relentlessly opposed equally by Socialists, Fascists and Financial Monopolists, but a policy that must come if the world is to be saved from chaos.

Where Socialist Theory Breaks Down.

In any discussion on the working of the existing economic system the Social Crediter affirms that the main reason for its faulty functioning lies in the money mechanism of Distribution. The orthodox economist of the Sound Finance school will not agree with this and the Communist will deny it.

The orthodox economist rests his argument on the inviolability of the present Money system, which places the claims of Money above all other claims, and the theory that the price system is self-liquidating.

The only concession that he makes is that any apparent failure in distribution arises from the maladjustment of savings and investment, and that temporary shortage of purchasing power is caused by a delay in investing savings in capital goods for the production of consumable goods.

His argument boils down to the proposition that if more investment is made, more people employed and more goods produced, there will be no failure in distribution. Unfortunately, this argument does not square with the facts. The problem is not one of production at all, and the problem is not solved by enlarging its base and ignoring the lessons of experience.

The Orthodox Sound Finance man and the Socialist agree on one point, namely, that the price system is self-liquidating and that there is always a sufficiency of purchasing power in the community. The Socialist grievance, however, is that the money distributed through Industry is not shared justly and scientifically and that the industrial capitalist gets too large a proportion in the shape of rent, interest and profits.

To make Distribution effection the Socialists would make all industry a State function, eliminate profit and the profiteer, and produce for use only. They think the problem is one of **Administration**, and that Production by the State will solve the economic problem. Their diagnosis is wrong and their remedy is wrong.

Whatever faults private enterprise and capitalism may have, we cannot blame them for any failure in **production.** Industry, on short notice, can flood the world with goods and services, and would do so if it could only sell them. These are facts, not theories.

The fact that Industry cannot sell either its actual or its potential production localises the flaw to the system of Distribution, which is Finance, or Money. It is idle to look anywhere else.

We insisted at the outset that the proper purpose of an economic system is to produce goods for consumption. Classical economists like Adam Smith and John Stuart Mill support this contention, and so do the idealistic John Ruskin and the analytical C. H. Douglas.

But if you listen to the politicians of every class—men like Mr. Morrison, Mr. Fadden, Mr. Curtin—or to Church Commissions or the daily Press, you would think that the finding of **employment** was its main purpose. It is an obsession for post-war development.

Machine Power versus the Employment System.

If we look at this question realistically we must see that employment for all is only possible in a pioneering country where an immense amount of developmental work is necessary and where the distribution of purchasing power is scientifically controlled. Such an idea cannot be reconciled with a labour-saving machine age and the march of science.

To use Douglas' phrase: "Industry cannot be expected to combine the fundamentally incompatible objectives of labor-saving and the provision of unlimited employment."

Then there is the Capitalist producer, who considers that the making of money profits is the true purpose of an economic system. Whilst we agree that the profit motive has been a powerful factor in industry, it is not true that profits are the end and aim of an economic system.

We agree with Douglas that "the primary object of the whole industrial system should be the delivery to individuals associated together as the public or society of the material goods and services they individually require."

You will remember that I said, a few minutes ago, that "as Distribution is the dominant factor in the existing economic system, the principles and policies governing that system are resident in the control of Distribution—that is, in Finance."

I will now state these principles and policies and contrast them with Social Credit principles as I go along. This should enable us to see more clearly why Finance is so powerful, why the economic system does not function properly and why we want to make fundamental adjustments in the system.

These main principles and policies are:

1. That Money is not only a medium of exchange but a Commodity.

The fact that Money is an article to be bought and sold and can be restricted and kept in short supply to increase its price, and that there is a "Money Market," internationally controlled, is one of the main causes of our economic troubles.

When Money is in the form of Bank Credit, costless in its creation, and functioning through pen and ink entries in cheque books and ledgers, it is iniquitous that interest should be paid for its use.

Interest on such an intangible thing as Bank Credit is usury of the worst type and leads to intolerable burdens of debt and taxation.

The Social Credit idea is that Money should have no value in itself. Its value lies in the function it performs and it should be purely a medium for distributing goods and services.

2. **That the right of creating, issuing and recalling Financial Credit must belong entirely to the private Banking System.**

The granting of this right, which should be the sole right of Government itself, to the private Banking System, gives them a Monopoly of Credit and turns the Banks into private mints.

The Monopoly of Credit establishes absolute control over all economic activities and is definitely the cause of the universal economic disease.

Douglas says: "A financial system that separates the ownership of Credit from the community is self-destructive, since only the community has the requisite consuming power to maintain production at its maximum."

The Social Credit idea is that, as the real credit of the community is created by the community, the financial reflection and control of that credit should be vested in the community, that is, the State.

3. **That Credit shall be issued only for Production.**

This policy is based on a twofold theory: (a) that production ensures employment; that men must be made to work and that work to obtain money is the only title to live; and (b) that Credit issued to Production (or Industry) will eventually provide sufficient purchasing power to buy the goods produced by Industry. In other words, that the price system is self-liquidating.

Both theories are fallacious. The first has come down to us as a moral and economic sanction from the age of Scarcity, and as the age of Scarcity has gone the sanction should go with it. We know also that Industry does not distribute sufficient purchasing power to buy its own production and that this inability progressively increases.

National Dividends must Supplement the Wages System.

The Social Credit idea is that, under modern conditions, complete employment in Industry is neither possible nor desirable; that the national dividend must progressively replace the wage and salary; that credit must be issued free to consumers to bridge

the gap between purchasing power and prices, and that this Consumer Credit shall be the controlling factor in Distribution.

4. **That Credit should be continually utilised in producing Capital goods and Capital works.**

This principle also embodies the idea that men must be kept in employment, especially in times of economic depression, when it is enforced on politicians, who only exist by grace of the Credit Monopoly.

It also embodies the theory that the money distributed through Capital Production will provide the extra purchasing power needed to buy the surplus of consumable goods on the market. This falsifies the previous theory that the price system is self-liquidating.

The issuing of Money for Capital Works is one of the most effective policies of the Monopoly of Credit. It involves loans to Governments on what is the finest security possible. It ensures a continuous and increasing public debt and increasing domination of all Governments.

This, in turn, ensures a continuous and increasing burden of taxation and consequent domination of all individuals in the community.

The Social Credit idea is that all public works should be financed by free credits and the assets so created would represent capital appreciation and satisfy the credits issued.

As the assets depreciated, so would the money created be written off till both were extinguished. There would be no debt and no subsequent taxation.

5. **That the basis of Credit must be either gold or the accepted currency of the State.**

This principle restricts the issue of financial credit in certain ratios to the amount of monetary gold or legal tender currency in the hands of the banks, without regard for the community's needs.

This is purely an arbitrary arrangement to suit the convenience of the Banks and the margins of safety deemed desirable for themselves, and it thus limits the community's rate of progress to the amount of gold or currency available.

Though we are off the gold standard there is a deliberate plot amongst international bankers to return to some form of Money control based on gold. The basis of this scheme is more psychological than economic. People have had, from the earliest times, and still have, almost a superstitious regard for gold and worship it as a fetish.

They ascribe to it almost magical attributes and Bankers realise that their appeal for confidence in their institutions will find its best response in this superstition of the people.

The Social Credit idea is that financial credit should be based on the real credit of the community, and that means its capacity to produce and deliver all wanted goods and services.

Credit Should be Based on Production.

Douglas says: "Credit-issue and price-making are the positive and negative aspects of the one thing, and we can only control the economic situation by controlling both of them—not one at a time, but both together—and in order to do this it is necessary to transfer the basis of the credit-system entirely away from currency, on which it now rests, **to useful productive capacity.**

"The issue of credit instruments will then not result in an expansion of money for the same or a diminishing amount of goods, which is inflation, but in an expansion of goods for the same or a diminishing amount of money, which is deflation."

6. That the limit of Credit issues by the Banking System must be determined by—(a) the Cash Reserves of the Banks; (b) The capacity of Industry to recover in prices and/or the capacity of Governments to recover in taxation· all interest charges on the credits advanced.

The first part of this principle is generally understood. It means that the Banks in normal times have to keep an ascertained portion of legal tender in their tills to meet their clients' demands for actual cash.

The limit of their credit issues is from 9 to 10 times the legal tender they hold. In this connection Treasury Bills are regarded as legal tender because they are convertible to cash on demand at the Treasury.

The second part of the principle is applied in abnormal times. In times of depression the Banks deliberately curtail their advances in relation to their cash reserves, but in boom times there is no danger in increasing the ratio, especially when the Governments are heavy borrowers.

In the last great war Banks created credits in astronomical amounts because they had the national security behind them and there was no risk. **This scandalous abuse of the power of Credit in private hands has put the whole world in pawn to the Money Monopoly and the first reform must be to constitutionally destroy this monopoly.**

The Social Credit idea is that the issue of Credit must not be limited by such an artificial thing as a cash reserve, but only by the productive capacity of the country.

Douglas says: "The only sane limit to the issue of Credit for use as purchasing power is the limit imposed by ability to produce the goods for which it forms an effective demand, providing the community agrees to their manufacture."

Our survey of the principles, theories and policies governing Finance as the agent of Distribution must convince us why they are ineffective in distributing the goods and services provided by Industry with the least trouble to the community. It reveals that the true purpose of an economic system, which is to deliver goods and services to the limit of productive capacity, or the limit of consumptive capacity, whichever occurs first, has been perverted entirely to serve the interests of the Financial system.

Above all, it reveals why and how "it is the most powerful means of constraining the individual to do the things he does not want to do—it is a system of government."

Douglas says: "Man does not live by bread alone—but without a reasonable amount of food, clothing and shelter his activities on this planet are both circumscribed in extent and limited in duration. . . . **The business of an Economic System is to deliver the right goods to the right users, and the private financing of public production is doomed because it is failing signally in delivering the goods.**

"That is the moral which works best."

THIRD LECTURE.

Money and Banking.

In our lecture last week we endeavoured to show:

1. The meanings of the terms Production, Consumption and Distribution.
2. The true purpose and function of these three social activities, which, taken together, form the Economic System.

We further endeavoured to show that Consumption is the most important part of an Economic System that is functioning correctly, but that, under the existing system, Distribution is the all-controlling factor.

In doing this we tried to isolate the governing principles and policies of Finance as the controlling mechanism of Distribution, and to point out how and why these principles and policies are frustrating the delivery "of the right goods to the right users."

We also said that Industry cannot sell either its actual or potential production, and that this fact localises the flaw in Money—it is idle to look anywhere else.

We have already agreed that Distribution, though a part of the Economic System, is also a system complete in itself, so, to-night, we propose to deal with the questions of Money and Banking to find out, if possible, how the system works and why it is "failing signally in delivering the goods."

We must first get clear in our minds a proper conception of the nature and function of Money. I do not intend to go into the history of Money through the ages; this can be found in numerous textbooks. We are only concerned with Money as it is in the Economy in which we live.

C. H. Douglas has several definitions of Money, such as—"Money is buying power," "Money is a license to acquire goods and services," "Money is merely a ticket system."

He himself accepts and repeats the definition of Professor Walker, which is: "Money is any medium that has reached such a degree of acceptability that, no matter what it is made of and no matter why people want it, no one will refuse it in exchange for his product."

Money has no Value in Itself.

You will note carefully that this definition—which, by the way, is accepted by all orthodox authorities—stresses three essentials of Money—(a) It may be **any medium**. (b) **It must have acceptability.** (c) It is a **medium of exchange.**

That is to say, that Money has no value in itself. **Its value lies in the function it performs** and the confidence people have in it. That function is to distribute goods and services.

This definition of Money cuts right across the first principle of Finance stated in our last lecture, namely, "That Money is a commodity." If we agree that Money has no value in itself we must also agree that it should not be regarded as a commodity, and that it is an economic perversion to treat a medium of exchange also as a commodity.

We should further agree that a "Money Market," which is so important in the world of Finance, is an anomaly, and that gambling on currencies is entirely at variance with a proper conception of money.

One of the great difficulties we have to face in our propaganda is the idea that there is some peculiar and mysterious magic in money and that money is wealth. Wealth is a reality; wealth is the capacity to produce and consume. Money is only a symbol of wealth, just as the figures on a thermometer are symbols of temperature and not temperature itself.

Unfortunately, Bankers and Economists, who live in a world of figures, seem to think that the symbol is more important than the reality and the shadow greater than the substance.

It is a major fallacy in our political and economic schools of thought that our real wealth is only conceived of in terms of Money, and the tragedy of Poverty amidst Plenty is entirely due to this conception. We are hopeful that the experiences of this war will demesmerise them and shock them into economic sanity and realism.

I said just now that Money has no value in itself, but Douglas goes much further than that. He says: "Money has no **reality** in itself. In itself it is either gold, silver, copper, cowrie-shells, or broken teacups. The thing which makes it money, no matter of what it is made, is purely psychological, and consequently there is no limit to the amount of Money except a psychological limit."

The Physical Nature of Money.

If we have arrived at a true conception of the nature and function of money, let us see what forms money takes and who provides it. Modern money is in three forms—Coins, Notes and Credit.

I do not think it can be denied by anyone that it is the sovereign prerogative of the Central Government to create and issue money as currency.

This prerogative is recognised in all national constitutions, and was fully exercised before the inception of the Banking

System and is still exercised as far as the tangible currency is concerned.

The gold (if any), silver and copper coins and Government notes are issued exclusively by the Government of Australia, and are the only tender recognised in law.

But above and beyond this prerogative it is the sovereign duty of the Central Government to provide all the money needed by the community, and the failure to perform this duty has led to the usurpation of the sovereign prerogative by an institution other than the State, namely, the private Banking System. This system, in times of peace, creates and issues most of the Credit of the country, and this Credit functions as Money.

I want you to be perfectly clear on this point, because the necessities of a continually expanding economic system—which means national progress—demand a continual expansion of the monetary resources of the community.

If that monetary expansion is denied, then progress is halted and commercial and social activities stagnate.

Let me illustrate what I mean. Suppose we had a closed community possessing £1000 of gold coins and that this money was used in producing goods. In the production of these goods labor and materials would be used, and these would make an increase in real wealth over and above the original £1000.

This addition of real wealth would be the community's profit or general appreciation of wealth, but if there were no means of increasing the monetary resources to reflect this profit the general appreciation could not be realised and no progress would be possible.

I think it is historically true that national progress in all countries was slowed down continually in the past by the failure of those in authority to recognise their sovereign duties in this matter, and that periods of national stagnation corresponded with the periods in which no new money was issued by the authorities.

Further, I do not think it can be gainsaid that periods of national progress and commercial activity corresponded with the periods when new money came into circulation, either by debasing the coinage, rifling the monasteries or by gold and silver discoveries in India, the Americas, Australia and Africa.

The money-issuing authorities were devoted to the fetish of gold, and the abundance or scarcity of that metal determined the amount of currency and therefore the measure of national progress.

The failure of the State to provide additional money to meet the growing demands of commerce and public expenditure was entirely responsible for the introduction and development of the Banking System, because that system was prepared to provide the money it was the State's duty to provide, but which it failed in providing.

The Sovereign Right to Issue all Forms of Money.

This failure of the State has had the most tremendous consequences both for good and evil—good in showing the magical power of Credit-Money, evil in subordinating the most sovereign right of the State to private corporations exercising control without responsibility.

Not the least job of the Social Credit Movement is to make the State realise its duty and reassert its sovereign right to create and issue all forms of Money, including Bank Credit, so that there will never be a setback to progress through lack of the means of exchange.

If we take the trouble to find out the respective amounts of legal tender and Bank Credit in the community we will get plenty of information in the Government Bulletins of Statistics.

In normal times in Australia there are about £8 million pounds of silver and copper coins and £50,000,000 of notes in circulation, divided equally between the Banks and the people.

In abnormal times like the present there is a tremendous increase in the note issue and a large proportion of these notes is in the hands of the public. Doubtless most of them are out of circulation through hoarding. People are afraid of the future and some are keeping notes to disguise profits from the taxation office.

At June 30, 1942, the note issue was £102 million, of which the public held £86 million and the Banks £16 millions. At this date the Banks held, as a reserve, Coin, Bullion, Notes and Cash with the Commonwealth Bank, a total of £75,000,000.

But the greatest proportion of Money is in the form of Bank deposits, which amount to £756,000,000, all of which have been created as Bank Credit and only exist as ledger entries in the books of the Banks.

This huge amount in the form of Bank deposits was created by the Banks on the basis of the legal tender held by them This Credit is from nine to ten times the value of the cash the Banks held in reserve.

That is to say, that out of every ten units of money in the community **one** unit is created by the State and **nine** units by the Banks. An examination of any Bank balance sheet shows this clearly.

But the main thing to remember is that the credit created and issued in this way is responsible for more than 99 per cent. of total business transactions and that practically all money in existence has its origin in a debt to the Banks. This is brought about by the universal use of the cheque method of payment and the bookkeeping entries of the Banks, whereby the credit issued by the Banks circulates through every avenue of commerce.

The Vast Implications of the Cheque System.

These cheques are adjusted between the various trading banks through a common clearing house, and the clearing house figures reveal the immense volume of business done in this way.

Sir James Elder, chairman of the National Bank of Australasia, has stated that 500,000 cheques of a face value of £10,000,000 are cleared every day. Cheques drawn on and paid into the same bank are not included in this amount, and would increase the total tremendously.

The discovery and utilisation of the vast power of credit as Money and its monopoly by the private banks have revolutionised economic life and placed in the hands of those who create and control it a greater power than has ever been vested in any system in the history of the world.

This power resides in the policy by which Bank credit, which is the very life-blood of industry, is only issued as a debt to be repaid with interest, thus establishing for the Banks an over-riding claim on all the productive forces of civilisation.

The words of McKenna, chairman of the Midland Bank, are literally true: "They who create the Credit of a country control the policies of Governments and hold in their hands the destinies of the people."

The determination of where the control of credit is to reside is the most vital problem of humanity.

At this point we need to distinguish between Real Credit and Financial Credit. Douglas explains this very clearly. He says: "REAL CREDIT is a correct estimate of the rate, or dynamic capacity, at which a community can deliver goods and services as demanded. FINANCIAL CREDIT is ostensibly a device by which this capacity can be drawn upon. It is, however, actually a measure of the rate at which an organisation or individual can deliver money."

In another place he elaborates this idea as follows: "Financial Credit may be considered as a reflection of Real Credit, which is a measure of the capacity to deliver goods and services as, when and where required.

"Since this conception of Real Credit implies an organised, orderly and stable community, whose object in production is consumption, it seems difficult to object to the statement that the real basis of credit is the producing and consuming capacity of the community, and still more difficult to justify a condition of affairs in which this credit is loaned to it as an act of grace, although a charge for its mobilisation can be easily admitted.

"Since the creation of financial credit is a costless proceeding in itself, the mechanical portion of the process merely consisting of writing figures in a book, and since financial credit arises out of this bookkeeping technique and is by definition practically the only effective demand for goods and services, it is plain that the whole of the goods and services produced by the community are the potential property of the financial system as at present operated.

"It is practically, however, more important to realise that a financial system which separates the ownership of credit from the community is self-destructive, since only the community has the requisite consuming power to maintain production at its maximum."

The Rise of the Bank of England.

These definitions by Douglas are very important. In his reply to Professor Copland he states: "The whole of my views are based on certain fundamental propositions of which, for the purpose of Professor Copland's criticisms, the three following are the most important:

(a) That Financial Credit pretends to be, but is not, a reflection of Real Credit as defined in (b); (b) Real Credit is a correct estimate or, if it be preferred, belief as to the capacity of a community to deliver goods and services as, when and where required; (c) that the cost of Production is Consumption."

Without attempting to deal with (b) and (c) at the moment I want to emphasise the fact pointed out by Douglas that Financial Credit pretends to be, but is not, a reflection of Real Credit and therefore it is not scientifically issued.

You will remember we discussed this point last week when we ascertained that Bank Credit was based on Currency and that the limit of Credit issues was determined by the cash reserves of the Banking System.

As Social Crediters, we realise that this basis and limit are purely arbitrary and bear no relation to the basis and limit defined by Douglas, but perhaps we do not realise how and why this basis and limit were adopted and are still used when their need has long passed away.

The reason will be found to be more or less psychological, a legacy from the time when money was so scarce that its possession connoted real wealth and it was supposed to have almost supernatural attributes.

As I have tried to point out, Money still possesses magical qualities in the minds of the majority, and Bankers know full well that, whilst this idea remains, the people will retain the necessary confidence in a Credit structure with a foundation, or supposed foundation, on gold or real money.

How did this condition come about in regard to the Banking System? In England, the first bank, the Bank of England, was founded in 1694 to provide money for William the Third to prosecute his continental wars, and its methods were founded on the policies and practices of the goldsmiths who, for many years, had been the custodians of the gold and silver of the London merchants.

Origin of the Cheque System.

In those days there was no police force, the streets were unlighted and the city was full of footpads and highway men. There was a very real danger in holding large sums of gold, which was the main currency at that time. Consequently it was safer to place gold in the vaults of the goldsmiths.

These goldsmiths gave receipts for the gold in their keeping, and experience showed them that only one merchant in ten ever drew gold out to complete a business transaction with another merchant. The transaction was completed by the merchant buyer instructing the goldsmith to transfer the necessary amount to the seller.

At first this was done by transferring the gold from one merchant's box to the other's, but this was soon superseded by making the adjustments by book entries. The goldsmith's receipts and the merchant's instructions were the forerunners of the modern notes and cheques and the book adjustments the beginning of the system of bank ledger entries and balances.

As a result of the knowledge gained by the goldsmiths they came to realise that £1000 worth of gold was sufficient to transact £10,000 worth of business, and so they issued receipts to that amount. **In other words, they created credits to the extent of £9000.**

The principle of credit creation discovered by the goldsmiths was adopted by the Bank of England, and has remained the fundamental principle of bank credit creation up to the present time, and Bankers still consider it sound policy to maintain the ratio of nine of credit to one of cash.

This means that the amount of money in the community is determined by the gold or legal tender currency held by the banks. As this currency bears no relation to the monetary needs of the community or its capacity to deliver goods and services, Financial Credit, as now created, can never be a true reflection of Real Credit.

Though the creation of financial credit is costless in itself, this credit represents 90 per cent. of total currency, 99 per cent. of total business transacted and all the deposits in the trading banks. This makes the Banking System the financial arbiter of the world. Mr. McKenna, when chairman of the Midland Bank, stated: "The amount of money in existence varies only with the action of the banks in increasing and diminishing deposits. We know how this is effected. Every bank loan and every purchase of securities by a bank creates a deposit, and every repayment of a bank loan and every sale of a security by a bank destroys one."

The Creation of Financial Credit.

Strangely enough, in spite of this statement of McKenna's, which is supported and endorsed by all responsible authorities, Bankers still proclaim that they only lend their depositors' money and, by implication, that they do not lend or create credit. So let us go back to the Banker and get his explanation of the technique of credit creation. I again quote from Mr. McKenna:

"When a bank makes a loan to a customer or allows him an overdraft, in the ordinary course the loan will be drawn upon, or the overdraft will be made, by a cheque drawn by the customer upon the bank, and paid into someone's credit at the same or another bank. The drawer of the cheque will not have reduced any deposit already in existence, because we are supposing a case in which he has been given a loan or allowed an overdraft. The receiver of the cheque, however, when he pays it into his own account, will be credited with its value, and thereby a new deposit will be created."

Or suppose a bank buys securities or discounts a bill:

"The proceeds of sale are paid into the credit of the seller's account, and increase the total of bank deposits; and in the same way, also, when a Bank buys War Loan or makes any other investment, the purchase money goes to the Credit of somebody's account in some bank, and increases the total of deposits."

This should effectively dispose of the old-fashioned belief that banks only lend the deposits of their customers and that the profit to the banks consists of the difference between the amounts they pay their depositors and the amounts they receive in interest from their clients.

As McLeod, a recognised authority on banking, points out, no bank can make a profit this way. Its profit depends almost entirely on the interest it receives from the amount of credit it can create and lend to customers.

In this connection Douglas writes:

"The complaint which is levelled at the banks is generally that they pay too large a dividend. Now, curiously enough, in my opinion, almost the only thing which is not open to destructive criticism about the banks is their dividend.

"Their dividend goes to shareholders and is purchasing power, but their enormous concealed profits, a small portion of which goes in immensely redundant bank premises, etc., do not provide purchasing power for anyone, and merely aggrandise banks as banks.

"But the essential point in the position of banks, which is so hard to explain and which is grasped by so very few people, is that their true assets are not represented by anything actual at all, but are represented by the difference between a society functioning under centralised and restricted credit and a free society unfettered by financial restrictions."

How Bank Loans Are Issued.

If we are now clear on such questions as the basis, the limit and the method of creating financial credit by the existing financial system, let us now examine the basis of issuing it.

We will suppose that Brown, being in business as a manufacturer, wishes to extend his operations. If his reserves are insufficient for the purpose, he will seek an overdraft from his bank. Before the bank grants this it will examine his financial position, check up on his balance sheets, take note of his prospective new business, and be assured of the integrity and ability of Brown himself.

Then, if he is assessed as being "credit-worthy," the bank will grant the overdraft, providing Brown can deposit collateral securities to the value, say, of twice the amount of the overdraft agreed upon.

Now, the general opinion is that the Bank has advanced this credit against the securities lodged by Brown, and that, by so doing, it has liquefied some of Brown's assets and made them function as money. This is, in a measure, true, but it is far from being wholly true.

The loan is really granted because the Bank is satisfied that Brown can recover from the community, through the prices he places on his goods, the interest on the overdraft and, if demanded by the bank, the principal as well.

The real basis of the loan is the fact that Brown is a functioning member of a functioning community engaged in producing and delivering goods and services. That is to say, the loan is issued against the real credit of the community.

This REAL credit is created by the community, but the banks, by issuing FINANCIAL credit against it, claim it as their

own. **As Douglas says: "The Banker is in a unique position. He is probably the only known instance of the possibility of lending something without parting with anything and making a profit on the transaction, obtaining in the first instance his commodity free."**

The things we must note in this transaction between Brown and the Bank are:

1. That the loan is not issued to Brown against the securities lodged by him, but against the Real Credit of the community.
2. The cheques drawn by Brown against the loan are only effective when paid into the Banking System as deposits by the receivers. The loan to Brown has created the deposits; the deposits have not created the loan.
3. The loan by the Bank is an absolute creation of new money. No deposit has been reduced in consequence of the lending.
4. The loan to Brown is an assest of the Bank.
5. The deposits made from Brown's cheques are a liability of the Bank.
6. Brown buys the credit to increase production; the Bank issues the credit to make profit—it is not concerned with anything else.

Growth of the Debt Structure.

The whole transaction is called a **credit** transaction, but it really is a **debt** transaction, because all money issued as credit by the Banks is issued as a repayable debt. **All banking transactions are of this nature, and so the whole financial structure is a debt structure.**

If all debts for and against the Banks are paid, the advances (or assets) and the deposits (or liabilities) cancel one another out and all that remains is the cash reserves of the Banks to financially represent the real wealth of the community.

The essence of all this is that a **debt structure** such as we have shown can only support itself on the complete confidence of the people in the Banks themselves, and the moment this confidence disappears the whole of the structure collapses like a house of cards.

The Banking System, in order to protect itself, must strain every nerve to retain this confidence. Having complete control of all money it controls all necessary propaganda, and publicity to maintain the idea that the Banking System is the only sound and sane system and ensures that only those people who subscribe to the views of "Sound Finance" are allowed in authority.

But it is doing much more than this. To-day, Banks do not act as independent units. They are huge combinations working on a common policy. They pool their resources in times of emergency and take a common line of action. Their alliances and combinations are not only national, but international, and their interests and powers are interlocked with all the key industries of the world.

In every country the powers of Banking have usurped the sovereign rights of the Government and destroyed the economic security of individuals, and now these powers are stretching out to take complete world control of finance and industry.

The rapid growth of Central Banking since the last Great War and the establishment of a super-central Bank—the Bank for International Settlements—are all evidences of this tendency and disclose the universality of the operations of High Finance as a hidden super government.

The present World War has upset these plans somewhat, but Wall Street Bankers are planning another similar Bank for the Allied democracies, with the gold hoarded in America as a basis of world currency and trade.

Functions of a Central Bank.

What then are the functions of a Central Bank? Primarily a Central Bank is a Banker's Bank that holds the credit balances of the member banks associated with it. It does not enter into competition with its members by transacting ordinary bank business, but determines a uniform policy for them all.

It regulates the Money Market because it fixes the bank rate and issues and controls the currency of the country. And as currency forms the basis and determines the limit of financial credit it therefore determines the purchasing power of the community.

Because the Central Bank holds the cash balances of its members, this gives them the right to draw—that is, the right to create—credit against these balances as though they were actual cash reserves.

This enables the trading banks to issue large volumes of credit without having to keep idle cash as backing for credit issues, and in this way the powers of the private trading banks are greatly extended and their risks diminished.

The Central Bank becomes in this way the binding link that fastens the financial chain almost unbreakably around the economic structure of every community.

In Australia the Central Bank is the Commonwealth Bank; that is, the Central Bank belongs to the people and should function for their benefit. To-day it merely functions for the benefit of the private banks and by its control of currency, based, or supposedly based, on a gold and sterling basis, regulates the financial credit of Australia.

This financial credit in pre-war times was totally inadequate to meet the needs of the people and never at any time reflects the real credit of Australia.

First Step in the Escape from Bondage.

It is the duty of Australia to alter the policy of this Central Bank and make it function for the good of the people. The Government of Australia, representing the Australian people, acting through its own Bank, also representing the Australian people, must resume its rightful prerogative of issuing the money of Australia and so increase the monetary resources in the post-war era that financial poverty will never more disgrace this rich young country.

There need really be no difficulty in this matter at all, no need for nationalising the private banks, no need for revolutionary destruction. We have our own Commonwealth Bank ready to our hand and our Bankers have already shown us an adequate mechanism that we can use. If the private Banks can draw against their balances with the Commonwealth Bank and create financial credit against them, surely the Government of the country has a thousand times greater right to the same privilege?

All that is needed, then, to secure economic freedom for Australia is for the people of Australia to instruct the Government, representing themselves, to deposit the necessary non-interest bearing securities with the Commonwealth Bank, and to instruct the Commonwealth Bank, also representing themselves, to issue credit against them to the amount necessary to progressively pay off maturing loans, meet current interest payments, create public works, establish a retail discount to allow goods to be sold under financial cost, pay a national dividend to the people, and anything else justified by the needs of the people and the real credit of Australia.

The report of the Banking Commission shows that this CAN be done. The Social Credit Movement says it MUST be done.

FOURTH LECTURE.

The Douglas Analysis.

In a precious lecture we stated that a cardinal policy of Finance was that Credit must be issued only for Production. This policy ensures that all Industry functions on overdrafts from the Banking System.

We stated also that Money created and issued in this way is responsible for all deposits in the Banks and of all spending power in the community.

The power to create, issue and recall money gives the Banks a Monopoly of Credit, and the faulty functioning of the economic system can be traced to this fact.

According to Douglas, the Monopoly of Credit "operates to produce a permanent and increasing disparity between the minimum collective prices of products of the industrial system within a given credit area and the collective effective demand available for the goods so produced." In other words, it operates to produce greater prices than incomes.

The examination of the cause of this disparity between collective purchasing power and collective prices constitutes the Douglas analysis and is our chief concern in this evening's lecture.

Before we proceed to discuss the analysis we must be clear on certain terms and propositions that are essential to a clear understanding of it. They are:

1. Collective purchasing power is the sum of all incomes distributed by Industry as wages, salaries and dividends. Collective prices is the sum of all money costs, including profits, incurred by Industry.
2. Industry is a continuous process and must be regarded as a flow.
3. Practically all purchasing power comes into existence through loans granted to Industry in the form of Bank Credit.
4. Credit and purchasing power originate in production and are cancelled in consumption.
5. Effective demand is demand backed by money as purchasing power.
6. All costs are reflected in prices.
7. Bank Credit is created by Bankers out of nothing by book entries.

Douglas repeatedly states that cost is the core of the economic problem, and his analysis deals with the difference between costs reflected in prices and costs reflected in purchasing power.

In "Warning Democracy" he writes: "It is not too much to say that there is no single cause operating in the world to-day which is of such primary importance and is so fraught with the possibility of world disaster as is the disparity between purchasing power and prices."

The whole argument for Social Credit as an effective reform rests on the proof of this disparity. If it fails, the case for Social Credit fails, and that is why all orthodox economists do their utmost to disprove the analysis of Douglas and to try and prove that purchasing power and prices are equal.

The "A" and "B" Theorem in Brief.

Let us present the case for the analysis from the statement of Douglas to the Macmillan Committee of Finance and Industry:

"The causes of this disparity are complex, but the two more important are:

(a) the "double circuit" of money in Industry,

(b) the reinvestment of savings.

"(a) The double circuit difficulty has been stated by me in the form of a proposition, which has been popularly known as the A plus B theory. A factory or other productive organisation has, besides its economic function as a producer of goods, a financial aspect. It may be regarded on the one hand as a device for the distribution of purchasing power through the media of wages, salaries and dividends; and on the other hand as a manufactory of prices—financial values. From this standpoint its payments may be divided into two groups—

GROUP A: All payments made to individuals (wages, salaries and dividends).

GROUP B: All payments made to other organisations (raw materials, bank charges and other external costs).

"Now the rate of flow of purchasing power to individuals is represented by A, but since all payments go into prices, the rate of flow of prices cannot be less than A plus B. 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.

"The above proposition is perhaps most simply grasped by recognising that the B payments may be considered in the light of a repayment of a bank loan by all the concerns to whom they are made, with the result involved in the relationship previously discussed between bank deposits and bank loans. When real capital (i.e., tools, etc.) is financed from savings, that condition is complicated by (b).

"(b) Since money is normally only distributable through the agency of wages, salaries and dividends, it being assumed that the interest on Government loans is provided by taxation, the whole of these wages, salaries and dividends must have appeared in the cost, and, consequently, in the price of articles produced.

"It does not appear to need any elaborate demonstration to see that any saving of these wages, salaries and dividends means that a proportion of the goods, in the prices of which they appear as costs, must remain unsold within the credit area in which they are produced, and are, therefore, in the economic sense, wasted.

"The investment of the funds so saved means the reappearance of the same sum of money in a fresh set of prices, so that on each occasion that a given sum of money is reinvested a fresh set of price values is created without the creation of fresh purchasing power."

A Revolution in Economic Conceptions.

This analysis of Douglas is a revolution in economic conceptions; it is the fundamental difference between orthodox economics, Socialism and Social Credit, so we must examine it thoroughly.

I suggest, in the first place, that we look at the question from the angle suggested by Douglas himself. He says: "Obviously the correct method of approaching the subject, though not that commonly employed by professional economists, is first of all to ascertain if the situation does in fact confirm the theorem."

In doing this let us forget for the time being the abnormal world of war in which we are living, where a large proportion of the people are in active military service or engaged in work at high wages, producing capital and non-consumable goods for waste, with a small proportion making goods for civil use, and base our examination on a normal economy of peace.

This is the realistic, scientific approach, and in our survey of the situation to see if the facts confirm the A plus B theorem we need not go out of Australa or beyond the period just prior to the outbreak of the present war.

During that period there were surpluses of wheat, butter, wool, meat, eggs, dried fruits, apples, sugar and other primary products. Much of these surpluses could have been sold in Australia, because there was a real need and a real demand for them by many who were improperly fed or underfed. Unfortunately, these people were going short of apples, eggs, butter and other protective foods and Australia was developing a C class community simply because the people had no money with which to buy them. **Their demand was not effc tive demand.**

The sound finance expert would say that this condition was of minor importance. The export of these surpluses was necessary to expand our markets abroad, to meet interest payments in London, and to create credits for imports. As Australia is ruled on "Sound Finance" ideas, of course the surpluses were sent overseas and, incidentally, sold at lower prices than were the same goods in Australia.

The Communist would argue that the people could not buy the surpluses because the producers took the surplus values for themselves. This argument will not hold water because, at that time, the majority of primary producers were making no profit at all and many of the industries had to be subsidised by the Government to keep them going. The only conclusion we can come to is that primary production was not distributing sufficient purchasing power to buy its own production.

It may be argued that the economy of Australia was unbalanced and that the surpluses could have been sold locally if there had been more secondary production.

This argument does not hold water either because Australian shops were filled with secondary goods of all kinds from Australian factories, only awaiting orders to be sold. There was a glut of secondary as well as primary goods.

In addition to this existent abundance there was a large unused capacity to produce further abundance in the shape of unemployed men, idle farms, plants and factories. The problem was not to get things made, but to get them **sold.** It would be waste of time to say that the people did not want these things; they simply could not pay the prices put on them.

Industry was not distributing purchasing power as fast as it was generating prices; the goods were not all sold; A was not buying A plus B.

How Debt Balances the National Economy.

Now let us relate the second part of the theorem also to the situation as it exists. You notice that Douglas does not say that the portion represented by B is not sold or cannot be sold. He says "that a proportion at least equivalent to B must be distributed by a form of purchasing power not comprised in the description grouped under A."

In the pre-war period we have selected, when partial recovery had been made from the depression and there was marked evidence of increased production and spending, let us see how goods were sold by the equivalent of B payments.

At that time one of the most visible signs of increased prosperity was home building. Hundreds of houses were built, practically all on instalments through the Banks, insurance companies and building societies, with payment spread over a period up to thirty years.

Most of the furniture in these homes was secured by hire-purchase agreements and much of the clothing and personal effects of the nominal owners was bought with cash orders, whilst the motor cars that congested the roads on week-ends were nearly all being paid off by promissory notes.

Surely this is clear proof that these things were not bought by the money distributed in their production, but by credit created against goods yet to be produced—that is, by mortgaging future purchasing power. In other words, the "form of purchasing power not comprised in the description grouped under A" was—DEBT.

In addition to these particular forms of mortgaging future purchasing power were the sums borrowed by Governments to finance public works. You all remember the meetings of the Loan Council and the unseemly wrangles of the mendicant State Premiers to get as much loan money as possible for their own particular projects.

Apparently the more you spent as a State in one period the more you were entitled to get in the next loan period, and Mr. Stevens' claims to have established prosperity in New South Wales mainly rested on his ability to grab the largest proportion of loan-money in this way.

This money, created and loaned as credit by the Commonwealth Bank, when spent on capital works such as harbors, reservoirs and main roads, came into the hands of the people and helped to buy the consumable goods that otherwise would have remained unsold.

The money borrowed was added to the National Debt and bears perpetual interest, which the people pay in increased taxation.

This policy of Government borrowing is called "Sound Finance," and under the present system no Government can exist without resorting to the Banking System to provide a large proportion of "the necessary purchasing power not comprised in the description grouped under A." I think we need not go beyond Australia to prove by facts how completely the situation confirms the truth of the A plus B theorem.

We can look at the A plus B theorem in another way, though still relating it to things as they are. If we take the audited returns of any business we will find that it never distributes sufficient money to individuals to pay the price values of its output.

A Cannot Buy A + B.

Before Douglas gave his analysis to the world he made a close examination of more than one hundred large businesses in the United Kingdom and found that, in every case, the total costs incurred each week were greater than the sums paid out in wages, salaries and dividends.

If a single business shows this, if one hundred large businesses, without exception, show this, surely it is a simple mathematical fact that the sum total of payments to individuals in all businesses cannot pay the sum total of price values of the output of all businesses. So we come back to the fact that collective prices are greater than collective purchasing power and the theorem is again proved.

These proofs from facts should satisfy the ordinary person, but they do not satisfy the orthodox theorist. His main difficulty is that he cannot, or will not, see that industry is a continuous process of series production, financed through all its stages by overdrafts of Credit from the Banking System and that B payments "may be considered in the light of repayment of a bank loan by all the concerns to whom they are made," and that every such repayment, as stated by McKenna, destroys a deposit.

If this is clearly kept in mind it must be evident that if the credits that brought a certain volume of goods into being were cancelled before the goods were sold, there must be an equivalent amount of price values unliquidated and the goods to which the prices are attached must remain unsold till a fresh Bank credit is issued and distributed as purchasing power through production.

Douglas says: "This process of repayment of Bank loans is a 'chain' process which starts with the repayment by the last business concern engaged in the manufacture of the articles, of the costs and profits incurred by the stage of manufacture immediately preceding it. If this operation be clearly visualised it will be seen that all payments of costs of goods supplied by one business firm to another business firm for resale can be assumed to be the repayment of bank credit."

"But we can go further and say that the difference between finance by bank credit and finance from so-called capital or savings is only one of degree and not of kind, since these very savings had their origin in a creation of credit."

Let us look at a series production with bread as the ultimate product.

1940. A seed and fertiliser merchant sells goods to a farmer for £200. The farmer borrows £350 from the Bank, out of which he pays the seed merchant £200, Overheads £50, Wages £100.

1941. Farmer sells wheat to Miller for £500, out of which he repays the Bank £350, Interest £20, leaving Profit £130. Miller borrows £1000 from the bank, out of which he pays farmer £500, Overheads £200, Wages £300.

1942. Miller sells flour to Baker for £1500, out of which he repays the bank £1000, Interest £60, leaving profit £440. Baker borrows £2500 from the bank, out of which he pays miller £1500, Overheads £400, Wages £600.

1943. Baker sells bread to Public for £3000, out of which he repays the bank £2500, Interest £150, leaving profit £350.

Diagram of a Series Production.

			Costs				Payments		
Year	Business	Bank Loan	R. Material	Overhead	Wages	Sales Prices	Bank	Interest	Profit
1940	Farmer	£350	£200	£50	£100				
1941	"					£500	£350	£20	£130
"	Miller	£1000	£500	£200	£300				
1942	"					£1500	£1000	£60	£440
"	Baker	£2500	£1500	£400	£600				
1943	"					£3000	£2500	£150	£350
Totals		£3850	£2200	£650	£1000	£5000	£3850	£230	£920

In examining this example of series production we see how overdrafts from the Banks are repaid and such costs liquidated. The prices of the goods produced through the series were: Wheat, £500; Flour, £1500; Bread £3000—a total of £5000.

The money disbursed in the series was: Raw Materials, £2200; Overheads, £650; Interest, £230; Wages, £1000; Profits, £920. A total also of £5000. If all these disbursements were saved and all made available at one particular moment of time the bread could have been all sold.

But they were not all saved and they were not all available. A period of three years has elapsed since the first disbursements were made and most of these were spent and no longer exist. This is true right through the series. The mill cannot grind with the water that has passed.

We note also that all costs incurred in one stage are allocated to the next stage and appear in prices even though the money representing these costs has been spent, so that when we come to the ultimate product—bread—all that is left to liquidate the total price of £3000 is wages £600 (and part of this may be spent), Profit £350, and a proportion of bank interest, say £50—a total of £1000.

A difficulty may appear here in the repayment of the loan by the Baker. Surely, it will be said, he must sell the bread before he can repay the loan. That is so, but we have to look at this series as typical and representative of total production. Of course, the people employed in a bread factory do not eat all the bread produced in it any more than the employees of a boot factory buy all the boots produced by the factory.

The Baker can only repay his overdraft by sales to the general community, who, in turn, can only get their purchasing power from credits issued by the Banks for other cycles of production.

If the Banks refuse to issue new money in this way no ultimate goods could be sold. When Banks set out on a policy of deflation by credit restriction, Industry collapses, and if they carried this policy to its limit and refused to issue any credit at all, business and society would be in chaos in a week and the country would be in revolution in a fortnight.

Under the present system goods can only be fully sold by the Banks providing the other form of purchasing power **not** comprised in A. B payments are Debt.

The time factor in series production is the other main difficulty of the orthodox theorist. He fails to see that money spent in one stage is not available in the next stage though the cost remains. I cannot do better than quote H.M.M. in this connection.

"All B items in cost were once A items—that is, they were somebody's income if we go back far enough. But money earned in the past is spent in the past and no longer exists. (It was created in production and cancelled in consumption.) Therefore, while current incomes avail to meet the current A items in prices, past incomes are not available to meet current B items."

Prices Always Greater Than Incomes.

This means that though the sum "represented by B" is not available as income, the costs represented by B are carried into ultimate price, making it A plus B. **In other words, the rate of flow of prices is always greater than the rate of flow of incomes as purchasing power.**

Before we leave this examination of series production let me refer to the statement I made a few minutes ago that the amount of £5000 in disbursements and prices were the same and that if all these disbursements were saved and made available at one particular moment of time all the bread could have been sold. I do so for a special reason.

Critics, like Professor Copland, ignore the time factor in series production and say it is not relevant to the question because industry is continually functioning and so purchasing power is always equal to the prices of ultimate goods. Suppose we concede this argument for the moment, does it really invalidate the proposition?

If all the prices are liquidated in this way and the money usually set aside for depreciation and savings spent in buying consumption goods, how is plant to be renewed and replaced? How is capital to be accumulated (supposing we accept the orthodox idea that all capital arises out of savings)?

Does not this idea of the price system assume that industry merely revolves in a closed circle which makes progress impossible? A Professor of Physics trying to prove that the idea of perpetual motion is sound is not more anomalous than a Professor of Economics trying to prove that the price system is self-liquidating.

Professor Copland's contention ignores facts and realities and proves that he does not understand cost practices and the working of the industrial system.

The question of "availability" of certain sums appearing in prices is very important and if we examine the costs of Industry more intimately from this point of view we shall see why there is a great and growing disparity between purchasing power and prices. Let us put down diagramatically the A and B payments in Industry, remembering that A payments are those made to individuals, B payments are all external costs and that the sum of A plus B represents prices.

BANKING SYSTEM

LOANS

INDUSTRY

CAPITAL GOODS		CONSUMPTION GOODS	
A COSTS	B COSTS	A COSTS	B COSTS
Wages Salaries Dividends	Raw Materials Bank Charges Depreciation Taxation Bad Debts General Reserves	Wages Salaries Dividends	Raw Materials Bank Charges Depreciation Taxation Bad Debts General Reserves
Purchasing Power	**Repayments**	**Purchasing Power**	**Repayments**
PRICES		PRICES	

You will note that Industry produces both Consumable and Capital Goods, and that both produce A and B payments. The analysis for both is the same, but whereas purchasing power is used to buy consumable goods it is not used to buy Capital goods.

Interest and Depreciation.

We have already shown how raw materials are paid for by repayments of bank loans. What about the interest or bank charges on these loans? If a loan is issued to a business with a rapid turnover the interest is calculated on a daily balance. Sometimes the rate of turnover may be a year or longer, so we will take an example where the turnover is yearly. If the bank advances £1000 at 5 per cent. it is evident that the borrower must charge £50 into cost to recover the interest, and the price must be at least £1050.

If he wishes to remain in business he must also add his profit. If that is £50 then he must increase his prices to £1100 because profit, like interest, has not been distributed into the community. From these two items alone prices exceed purchasing power by £100, even if the whole £1000 loaned by the bank were available as such. As we shall see later, it is not all available.

Take depreciation. In a machine and power age the amount set aside for depreciation is colossal. Last year the Broken Hill

Proprietary Co. set aside £1,575,000 for this purpose. The prices charged to the public had to include this amount, and this charge is made in all businesses.

In the same category are the huge general reserves accumulated by the large commercial undertakings of all kinds. Out of two issues of Rydge's Journal, picked haphazard, I took note of the reserves of eight public companies that make a fair cross-section of all big businesses. These were the companies: Kandos Cement, Morris Hedstrom, Broken Hill Pty. Co., Howard Smith, Wunderlich's, Carlton Brewery, Lustre Hosiery and I.C.I.A.N.Z.

Out of these companies Carlton Breweries had capitalised £975,000 from reserves and the Broken Hill Pty. Co. £4,300,000.

The latter had also invested £6,000,000 in subsidiary companies. The total reserves of the eight companies amounted to nearly £20,000,000.

In the same issues of Rydge's Journal were the balance sheets of the Union Bank, the Bank of Australasia and the Commercial Banking Company of Sydney. Their disclosed reserves amounted to £13,930,000. How much their undisclosed reserves are we cannot rightly estimate.

The essential point is that these eleven companies have disclosed reserves of nearly £34,000,000, every penny of which was taken from the public by the medium of prices. These reserves are never available as purchasing power, but are reinvested in production and so further increase the disparity we are examining.

The costing method whereby the price of capital goods is loaded through depreciation and reserve charges into the price of consumable goods is one of the main reasons why the gap between incomes and prices is continually widening.

Taxation and Savings.

Take Taxation. For the year ended June, 1942, the total taxation levied in Australia was nearly £237,000,000. The figures are much more for the year ended June, 1943. Many economists say that taxation merely redistributes purchasing power. This is only partly true. Before the war, for instance, Australia was putting aside £7,000,000 a year from taxation to redeem the National Debt. **This money was simply cancelled out of existence.**

Taxation has a double action. Firstly, it is regarded as a cost in Industry and is, therefore, charged into prices, and, secondly, it is levied on incomes, and so reduces purchasing power. The interest on the national debt alone is more than one million pounds a week, all of which is recovered in taxation and paid for in increased prices.

A word or two about Savings. If Industry distributes £1,000,000 in wages, salaries and dividends, and the recipients save £100,000, it should be evident that goods to this value remain unsold. If this sum is then invested in production it ceases to be available as purchasing power, but creates a fresh lot of consumable goods.

The orthodox argument is that this £100,000, when invested, returns to the community, and no purchasing power is lost. This is a fallacy. It can do one of two things—either it can buy the goods produced by the new investment or the goods immobilised in the first place—**but it cannot do both. It simply increases the disparity between purchasing power and prices.**

Our examination shows that the prices of ultimate goods embody all costs that have been incurred through all stages of production, but that not all of these costs are available as purchasing power when the goods come on the market. Some have been spent in previous stages and some have never been available.

This is the defect in the costing system exposed by C. H. Douglas in his analysis, and he traces the cause to the monopoly of credit that distributes all purchasing power as a debt through industry.

These are his words: "The fundamental defect in the present financial system is that it produces a disparity between available purchasing power and collective prices for goods for sale, and this disparity may be eventually traced to **the existence in prices of sums of money which were created by bank loans and which have been subsequently cancelled without being cancelled in the prices of the goods.**"

I think we can safely accept the Douglas analysis as expressed by Douglas himself: "That the wages, salaries and dividends distributed over any given period of time do not and cannot buy the product of that period, and the whole of production can only be bought by a draft and an ever-increasing draft on the purchasing power distributed in respect of future production, which purchasing power can only come from fresh bank loans and overdrafts."

Thus we come back to the proof that A cannot buy A plus B and that the proportion of the product equal to B can only be sold by mortgaging future purchasing power. That is to say, the existing system can only function by ever-increasing debt to the Banking System.

The actual situation in Australia and all over the world completely proves the Douglas analysis.

FIFTH LECTURE.

Results of the Monopoly of Credit.

Last week we examined the A plus B theorem by relating the industrial situation to the facts as they exist and to the accepted costing practices of the industrial system.

In doing so we found that the Douglas analysis clearly demonstrated an insufficiency of incomes and an ever-increasing debt to the Banking System. These two factors are the main causes of economic insecurity and the condition, in normal times, of poverty amidst plenty.

Let me quote again the statement I quoted from Douglas last week: "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."

As this world disaster foreseen by Douglas has come to pass, due in a great measure to the cause mentioned by him, and as the statement is so important in itself, it may be advisable to examine further this Monopoly of Credit which is directly responsible for the disparity between purchasing power and prices.

It has been well said that "war is economic peace and peace is economic war," so I intend to discuss the question, as we did last week, from the angle of a normal period of peace and not from the abnormal one of total war.

In normal peace times the manifested results of the disparity between purchasing power and prices are unemployment, low standards of living, bankruptcies, taxation, debt, struggles for markets and war. How are these conditions brought about?

In the first place let us consider the psychological factors that arise from the general conception of Money and its place in the world. For centuries the possession of money as a symbol of wealth has been taken as the standard of worldly success.

The ideas of real, human values based on character, intellect and achievement have been quite subordinated to the values placed on money.

Even the claims of birth and hereditary privilege, so long held in real veneration and supported by sycophancy and snobbery, have given way to the veneration of money. Money without birth counts more to-day than birth without money, and almost all titles are given for money services.

In the economy in which we live individuals depend entirely on money for their economic security. Without that, the means of bare existence—food, clothing and shelter—are denied them.

The possession of money over and above their needs is the first step to power, influence and social standing. Education, convention and experience compel them to accept money as the most important thing in the world.

Consequently wealth is the measure of success, and money the god of most people's idolatry. In the modern world, **all economic activity exists to serve a financial objective, and the claims of money override all other claims and all other rights.**

In industry the main idea is to make profits, and the policy of any business concern—to use a statement of Douglas—is "to pay its way as a means to the end of maintaining and increasing its financial credit with the banks."

The Tragic Cost of the Depression.

With such ideals as the basis of industrial and social activities it is quite easy to understand that the claims of the individual and the welfare of the community are matters of indifference to the Monopoly of Credit.

The Banking System is an impersonal institution and Finance is an abstraction. It enforces its powers institutionally and is as little concerned with the ruination of its victims as a military dictatorship is with the lives of its subjects.

The great depression that swept the world was due entirely to the financial policy of the Banking System, with its deliberate calling up of overdrafts and curtailment of Bank Credit. It has been estimated that, as a result of this policy, 70,000,000 people were thrown out of work, several millions died of starvation and despair, and several millions more had their health and morale permanently undermined by worry and malnutrition.

The Banks did not admit, and never have admitted, their responsibility for this awful tragedy in an age of abundance. Instead, they have hired economists, politicians and newspapers to throw the blame on anyone or anything but themselves, and have compelled them to devise schemes, like the Premiers' Plan in Australia, to confirm and strengthen their own policies and powers.

To get away from generalities, let us look at the result of Bank finance on the farming industry in Australia and the making of a money objective the main incentive in primary production.

During the Wheat Inquiry in 1934 it was stated that the wheat farmers and other primary producers owed the Banks £150,000,000. The overdraft rate at that time was 6 per cent., and every 1 per cent. represented a cost of 3d. per bushel in interest. The direct interest cost was thus 1/6 per bushel. The freight charges were 5d. per bushel, and as half these freight charges went to pay interest on the railways' debt this meant another 2½d. per bushel.

The interest charges on store accounts, freight on manures, etc., accounted for another 1½d. per bushel, **making a total of 1/10 a bushel in interest charges alone.**

The estimated minimum cost of growing wheat at that time under the most favorable conditions was 3/- a bushel, and the sale price delivered at Sydney was from 2/6 to 3/- a bushel. It was officially stated at the inquiry that, out of 70,000 wheat farmers in Australia, 25,000 were hopelessly insolvent, 25,000 more almost insolvent, and only 20,000 had a reasonable prospect of paying their debts.

Thousands were turned off their farms and the balance were enabled to carry on by subsidies from the Government. It was generally assumed that the Banks had first claim on these subsidies, and it was through the influence of the Banks that the subsidies were granted.

It is a nice comment to this poverty among the wheatgrowers that in the same year of the Wheat Inquiry the Chairman of Directors of the Bank of New South Wales gave £100,000 to provide an institution for the mentally afflicted. I do not know how many wheatgrowers were among the patients.

The Bankruptcy of Agriculture.

The dairy industry is in the same plight as the wheat industry. For years dairy farmers have been eking out an existence by working themselves and families very long hours practically without pay.

For years they have been subsidised so that they could sell their butter at a loss in London, and this year the Government has been compelled to give them a subsidy of £6,000,000. Like the wheatfarmers, their troubles come from their inability to recover their costs in prices. This selling below cost is rather a tragic way for the producer to correct the disparity we have been examining.

In manufacturing industries the conditions are such that all costs can be accounted for and a price for the ultimate product determined. It is not so in the primary industries. There are the unknown factors of fires, floods, droughts, pests, local and overseas markets. The whole business is a gamble based on uncertainty.

Agriculture, which should be the source and strength of our national economy, the main reservoir of our national credit, the sustainer of our health and wealth, is something which no longer attracts; it is something to escape from.

The building of a country estate to hand down to one's children no longer has power to charm. Children do not wish to stay on the land; they have seen their fathers struggle, mainly to pay interest to the Money Monopoly. They will have none of it.

A traditional race of farmers, handing down a cherished possession from father to son, is one of the sheet-anchors of a nation, but we cannot build such a race when a farm is an uneconomic proposition and the rewards of easier industries are so much more attractive. As a result there are fewer people on the land relatively and actually than there were 30 years ago.

This is a national tragedy, and there are other economic tragedies allied to it. Land is our great natural capital, and it is being wasted to satisfy the prevailing financial objective. All over Australia we see the destruction of timber to provide more grass to grow more wool and wheat and butter to pay more interest to the banks.

And every year we get more water erosion, more loss of surface soil, more choking up of watercourses. Everywhere we see land drained of its fertility by forced cropping. In the poor rainfall areas overstocking is turning the land to wind-swept deserts and the balance of nature is being wantonly destroyed.

All these dire results arise from the need for the primary producer to pay the interest on his overdrafts and to maintain his credit with the banks. This is one of our greatest problems, and it will never be solved as long as we permit the Monopoly of Credit to govern all industry.

The Monopoly Trend in Industry.

Let us look at the secondary industries. There are two distinct tendencies which can be traced to the Monopoly of Credit. First, the elimination of the small shopkeeper and manufacturer; second, the growth of chain stores and industrial monopolies.

The restriction of purchasing power has forced the individual buyer to go where goods are cheapest, and as the chain store can buy better and sell better than the single storekeeper it gets the custom.

The shopkeeper's rent has been forced up and his profit forced down to the stage when he can no longer compete. He loses his independence and becomes one of the job-seeking majority.

The chain store employs a manager, and the profits of a single shop would not support an independent owner, but the profits from 30 to 100 branches provide a good dividend. **But the personal, friendly link between shop and customer has been broken, and the passing of the independent shopkeeper is a distinct loss to the community.**

In manufacturing, the small man is going the same way as the small shopkeeper. His credit with the bank is limited, and he has to cut his profits to the bone to get any business. Eventually the combines will either absorb or ruin him.

Corporations like the Broken Hill Co., the Glass Co., the Sugar Co., the Metal Combine, the big breweries have dozens of subsidiaries, or have swallowed their competitors.

Most of these big industries are so mixed up with the banks by **interlocking directorates** that it is impossible to dissociate their activities. The growth of these monopolies, and the loss of personal relationship between owners and personnel, is an anti-social development, harmful to the community at large, but inevitable as a result of industry financed entirely by bank credit.

The banks never acknowledge that their method of financing production gives rise to a disparity between purchasing power and prices, **but they recognise it in practice.** This recognition takes the form of a restriction of lending and the calling up of existing overdrafts.

How the Banks Create Depressions.

Our previous examination showed that this disparity between purchasing power and prices results in a piling up of consumable goods that cannot be sold except by further recourse to the banks for Credit—that is, by mortgaging future purchasing power.

It will be obvious that there must be a definite limit to this, and the time comes when the banks realise that any further increase in Bank Credit will imperil their own position and their capacity to recover their advances.

So before the situation gets out of hand they decide to adjust their ratio of cash to advances by calling up overdrafts. That is, they proceed to bridge some of the gaps between purchasing power and prices by compelling the manufacturer to sell his goods below cost to meet his obligation to the banks. This is how it is done.

Let us imagine an area in which three boot factories—A, B and C—are operating on equal overdrafts from the banks:

	Overdraft.	Assets.				
A	£5000	£20,000	including	boots	made	£10,000
B	5000	15,000	„	„	„	7,500
C	5000	10,000	„	„	„	5,000

Up to this point things have been booming, and a surplus of boots, as well as all other lines, has accumulated. The problem of selling them is now starting to get acute, and the banks are getting nervous. They decide to call up £3000 from each of the manufacturers.

These men know that they must realise on their saleable assets. The banks want the money, and they won't take boots in satisfaction of their debt. So the three get busy in putting their boots on the market.

The retailers at once realise the position and start to drive a bargain. C, being in the worst position, must take the best price offering, so he sells boots priced at £5000 for £3000 and pays the bank. £1 in prices has been reduced to 12/-, and he has lost £2000.

C's selling price has now established the general selling price, and A and B also have to sell £5000 worth of boots for £3000. They also have lost £2000 each, and the trade depression is off to a good start. The position now is:

	Overdraft.	Assets.				
A	£2000	£15,000	including	boots	made	£5000
B	2000	10,000	"	"	"	2500
C	2000	5,000	"	"	"	Nil

C now has to reduce operations because his credit is restricted and he puts off three out of every five of his employees. Probably A and B do the same in proportion. The depression is well under way. There are more men out of work and less money to buy goods, therefore less money to pay the Bank interest. So the Banks decide they will call up the balance of £2000.

A Vicious Cycle which ends in Economic Breakdown.

C, of course, will have to sell some of his collateral. He will be lucky if he retains half, and B and C will also be lucky if they sell £2500 worth for £2000. We will assume that they are lucky and that all the overdrafts are paid off. The depression is nearing its climax and the position is as follows:

	Overdraft.	Assets.				
A	Nil	£12,500	including	boots	made	£2500
B	Nil	7,500	"	"	"	Nil
C	Nil	2,500	"	"	"	Nil

The assets of the three men have been reduced to £22,500 (which are now frozen) and the Banks have recovered every penny. One man is ruined, another nearly so, and their employees are on the dole.

Such instances are typical of thousands when the Banks embark upon their monstrous policy of restricting credit, which has been aptly described as the life-blood of the community.

The climax of the depression has been reached and the Banks now lend money to the Government on the best security possible—the nation's credit—so that the Government can provide relief work for the men the Banks put on the street.

In the meantime, what has happened to these unfortunates? Perhaps some of them have been buying homes on instalments or on first and second mortgages. They cannot meet their commitments. The mortgagees foreclose. All of them lose their equities and many of them their homes. The savings of a lifetime have vanished.

By this time the purchasing power of the community is so reduced that many small shopkeepers go insolvent. The small factory-owner, being unable to sell his goods, goes the same way, and their businesses go to the chain stores and the monopolists.

All these conditions hasten the ruin of the primary producer, and the vicious circle of deflation, poverty and misery started and caused by the Banks culminates in a breakdown of morale and general economic chaos. The bottom curve of the depression has been reached and can go no further without involving the Banks themselves in the common ruin. And the Banks know when to stop as well as when to start.

Of our three manufacturers only A has any boots to sell. The Banks, having achieved their object and having bridged some of the gap between purchasing power and prices, decide that it will be safe to once more issue credit for production.

So they issue A with all the credit he wants. With this he probably buys up the plants of B and C at his own price, becomes a monopolist and starts on the road to riches. The Banks have once more established prosperity.

The Great Social Evil of Taxation.

Now let us have a look at Taxation. In one place Douglas says that there are three kinds of Money—bought money (Loans), confiscated money (Taxation), and counterfeit money (Bank Credit). It is a cynical commentary on our public financial policy when we find confiscated money in the shape of taxation being levied to pay interest on counterfeit money in the shape of Bank Credit.

Statistics show us that more than five-sixths of Government revenue comes from taxation. All this taxation is paid in increased prices of goods and services and is one of the main factors that make up the disparity between purchasing power and prices.

As an indication of this the excise duty (which, of course, is indirect taxation) on a packet of 10 cigarettes is 5d., or ½d. each, or three times the value of the cigarettes. The excise duty on beer is 6¾d. a pint, which seems fairly steep for intoxicating water.

If you buy spirit to make an essence it will cost you 44/- a gallon. The distillery can make a handsome profit if it sells it at 2/- a gallon.

In addition to these duties, some lines carry sales tax, and on many so-called luxury lines this amounts to 25 per cent. The excuse for this taxation is the needs of war and the peril of inflation.

The real reason is the huge interest bill, due to the fact that the Monopoly of Credit has usurped the powers of government and the politicians acquiesce in the racket.

The total taxation raised in Australia for the year ending June 30, 1942, was nearly £237,000,000, or more than £33 per head of the population. In 1910 the taxation was £16,000,000. Since then the population has not doubled, but taxation has increased fifteenfold. When the figures for 1943 are available it will be found that taxation has increased twentyfold in thirty-three years.

How is the money spent? The public debt of Australia is now over £2,000,000,000 and the interest bill £65,000,000 a year, or one and a quarter million pounds a week. This is all paid by taxation. Invalid pensions, old age pensions, child endowment and maternity allowances absorb another £31,000,000 and relief to primary producers another £4,000,000.

The number of invalid pensioners was 17 per 10,000 in 1911. Now it is 85 per 10,000. Before the war it rose to 128 per 10,000. Last year 275,456 persons were receiving old age pensions in Australia.

A Damning Indictment.

A total of £35,000,000 was extracted in taxation from a population of 7,000,000 to mitigate in only a small way the poverty and misery of primary producers and those of all ages who had no economic security. **Surely there could be no more damning indictment of a system than this!** These items of interest, pensions and subsidies account for taxation to the extent of £100,000,000 a year.

To put this more realistically, it means that 400,000 men on a basic wage of £5 a week have to use the whole of their year's labor to pay the taxation for these items alone.

We speak of taxation being paid in the increased prices of goods sold. Let us not forget the increased price of services. Before the present war it was stated that out of every £1 paid in water rates 14/- went in interest; electric lighting charges 12/-, railway fares 10/-. To-day it costs 2½d. to post a letter; a few years ago it cost one penny. This is a rise of 150 per cent.

Undoubtedly the cause of all this is the private Monopoly of Credit and the issuing of all money as an interest-bearing debt.

One of the results of the shortage of purchasing power is the need, under modern financial methods, of finding external markets for the surplus goods that cannot be sold in the home market. This struggle for foreign markets is the chief of those things "fraught with the possibility of world disaster" mentioned by Douglas.

The story of the industrial expansion of Germany, the growth of its navy and army, and its determination to "find a place in the sun" at all costs, is well known. It caused the first great war.

The economic misery of Germany after the treaty of Versailles gave rise to Hitlerism, and the policy of rearmament to absorb the unemployed can be traced to the influence of finance in politics and industry.

The demand for living room, for raw materials and foreign markets by Italy, Germany and Japan were the main causes of the present war.

No industrial country can sell all its production in the home market, because all have the same flaw in the economic system. They have to try and sell abroad, and as there are many competitors for a continually decreasing market the result is inevitable—**War!**

The lessons of the first world war were never learnt, and it seems as if the lessons of this will not be learnt either. English statesmen are already saying that the first plank of post-war policy must be "increased exports."

"Export or perish" is still the slogan. If another world war follows as a result "export **and** perish" will be their epitaph.

The same ideas are animating America. Her new currency schemes, based on the gold hoard of the United States, aim to give her the position in foreign trade that she now holds in finance.

Behind all these moves is the sinister hand of international finance, which knows no country and whose lust for power and domination is insatiable.

Australia is within the ambit of these threatening schemes, and we do not know how much we are committed by secret understandings. We have every reason to suspect the financial and economic advisers, with their specious pleas that reform can only come if its scope is international.

That is the **last** thing that will bring reform. Reform, like charity, should begin at home.

How Australia Could Save Herself First.

Australia has its own currency and, above all, its own National Bank. It has a Federal Government with sovereign powers over money if it cares to exercise them.

Let Australia assert its sovereign prerogative over all kinds of money and credit; let it abolish the curse of interest on Government monetary requirements. Let it take off the fetters of debt and taxation from industry and Australia will then save itself by its own exertions, and perhaps the world by its example.

I think we should have satisfied ourselves by this time that the Douglas analysis is correct and that most of the economic ills of the world are due to the monopoly of the public credit by private institutions, acting without responsibility to the public for the enormous power they wield and animated chiefly by lust of power and profit.

The next logical step is to state and examine the Social Credit remedy. But before we do this it may be worth while to recapitulate what we have learned. We have learned that the objective of Social Credit is a New Civilisation in which the State exists to promote the self-development and perfection of the individuals composing it.

The ideal to be striven for is freedom in security, where the people will not be subjected to economic compulsion, but will exercise their economic functions through the co-operation of reasoned assent.

We have learned that the existing economic system is functioning very badly, and that the abundance made possible by science and invention is not being distributed.

The bridge between Production and Consumption, which is Distribution, or Money, has proved ineffective in delivering the goods and the true purpose of an economic system has been frustrated.

We have learned that the control of Distribution, or Money, now resides in the private banking system, and that the State, which should have sovereign rights over all money and credit, has surrendered its rights in this vital matter.

The right of creating financial credit, which is the life-blood of the nation, and on which depends the production of all goods and all incomes, has become a Monopoly of the Banks and has given them controlling powers over the policies of Governments and the destinies of the people.

Strike at the Roots of the Disease.

We have learned that the financing of all Industry by the Monopoly of Credit through the medium of interest-bearing debt gives rise to a great and growing disparity between collective purchasing power and collective prices, and that this, in turn, gives rise to economic insecurity, bankruptcies, low standards of living, alternate booms and slumps, burdens of debt and taxation, struggles for markets, international friction, and finally—War.

All these things are evidences of a diseased economy, and any remedy to prove effective must strike at the roots of the disease and remove them.

In the new civilisation that we visualise the first and basic requirement is absolute economic security.

Our reform, then, must start with the removal of the economic insecurity, which is the outstanding feature of the present economic system. We can only do this by removing the cause.

How economic security will be brought about will depend in a large measure on the social and political development of the country in which it is attempted, but the general principles on which the necessary reform is based have been laid down by Douglas as follows:

1. That the cash credits of the population of any country shall at any moment be collectively equal to the collective cash prices for consumable goods for sale in that country, and such cash credits shall be cancelled on the purchase of goods for consumption.

2. That the credits required to finance consumption be supplied, not from savings, but be new credits relating to new production.

3. That the distribution of cash credits to individuals shall be progressively less dependent upon employment. That is to say, that the National Dividend shall progressively displace the wage and salary.

We shall discuss these principles in our next lecture.

SIXTH LECTURE.

The Social Credit Remedy.

At the end of last lecture we gave the Social Credit principles that must govern any reform of the financial system so that it will efficiently serve a correct economic system.

Before dealing with these principles, let us recapitulate the main evils of the existing system, out of which spring all the minor evils. Broadly stated, they are as follows:

1. The creation, issuing and recalling of money by a non-Governmental authority—the private Banks.
2. The issuing and regulating of financial credit as an interest-bearing commodity based on an arbitrary cash reserve instead of on **Real Credit.**
3. The chronic shortage of purchasing power in the hands of consumers.
4. The insistence upon **work** as the only means of obtaining purchasing power.

Any remedy to be effective must do away with these evils, and we have to examine the three principles of Douglas to see if it is possible to develop from them practical policies to give us the results we want.

I will restate these principles a little more fully than in last lecture, but still using the words of Douglas. The first one is:

"That the cash credits of the population of any country shall at any moment be collectively equal to the collective cash prices for consumable goods for sale in that country (irrespective of the cost prices of such goods), and such cash credits shall be cancelled or depreciated only on the purchase or depreciation of goods for consumption."

We quoted last week Major Douglas's emphatic words about the world dangers arising from the disparity between purchasing power and prices, and this principle sets out the logical means of averting these dangers.

The result of this disparity is an unbalanced economy, varying from the dangerous present inflation to the more dangerous deflation of a depression, both of which are disastrous to any nation.

A scientific economy should be a balanced economy arising from an equation of purchasing power and prices, and the recognition of the need for such an equation is part of this first principle.

Bridging the Gap Through Consumption.

We have already seen that the disparity between purchasing power and prices is due to the existence in prices of sums of money created by bank loans that have been cancelled without being cancelled in the prices of the goods. It follows from this that the only logical remedy, on the technical side, must be to create and restore in some way the sums existing in prices previously cancelled by the Banking System, and so establish the necessary equation.

The money thus created could then be used, either to increase the total of purchasing power to make it equal to the total of prices, or to decrease the total of prices to make it equal to the total of purchasing power, or a combination of both.

As all costs are normally reflected in prices, this new money must not flow through the production system, carrying with it costs incidental to its passage. It must become purchasing power from the end showing the disparity—that is, through **consumption.**

Such money, therefore, must be issued as consumer or cash credit direct to consumers as a free gift—that is, without debt or interest.

This consumer credit cannot be issued by Banks that depend on issuing interest-bearing loan credits for production, but must be issued by a National Credit Authority established for this purpose, sponsored by the Government and backed by the total Real Credit (i.e., the wealth and productive capacity) of the Nation.

We have also learned in previous lectures that another reason for the disparity between purchasing power and prices is the recall and cancellation, before the goods are sold, of the credits that brought them into existence.

It again logically follows that the proper remedy is to ensure that such credits must only be cancelled or depreciated as the goods are sold or depreciated. This is a part also of the first principle.

The second principle is: "That the Credits required to finance production shall be supplied, not from savings, but be new Credits relating to new production, and shall be recalled only in the ratio of general depreciation to general appreciation."

As we have shown, the problem of insufficient purchasing power is intensified by the question of savings. These, being a portion of A payments direct to individuals, should help to take goods off the market, but do not.

There is no economic virtue whatsoever in savings, and the orthodox ideas that Capital is dependent on savings are either fallacious or rendered ineffective by the increasing use of Bank Credit. Savings prevent goods valued at a like amount from being sold, **and when such savings are reinvested in production they create a new series of costs without generating any fresh purchasing power.**

The application of this second principle prevents the flow of savings into production and redirects it back to its proper purpose in **consumption.** All production will then function on Credits created for the purpose, and these will be repaid as at present.

The National Dividend.

The third principle is: "That the distribution of Cash Credits to individuals shall be progressively less dependent upon employment. That is to say, that the dividend shall progressively displace the wage and salary, as productive capacity increases per man hour."

Under the existing system employment is the only means of obtaining purchasing power, and this principle recognises the necessity of providing some form of income other than wages and salaries as machines progressively displace men from industry.

In our lectures we have not had the opportunity to discuss the effect of machines on employment and the claims of the national dividend to replace or supplement incomes from industry.

All that we have hitherto said is that Social Crediters do not think it either desirable or possible to have full employment for all (in normal times) in a machine and power age, and that the provision of employment is not the primary function of an economic system.

The outstanding feature of the economic system to-day is its capacity to produce in abundance. I do not think it can be doubted for a moment that there is enough machinery and plant in existence to produce more than enough of goods and services to satisfy the whole community.

The world could be glutted with goods if the orders for these goods could be backed by money.

It has been estimated that the horse power already developed from solar energy is enough to give 50 power slaves to everyone in the world.

For a hundred years the efforts of the scientist and inventor have been devoted to finding new and better processes, bigger and faster labor-saving machines. So successful have they been that it has been estimated that a period of from two to four hours' labor a week for men during 25 years only of their lives is sufficient to provide the total population with a very high standard of living and with complete economic security for all.

Without being compelled to accept these figures, we know that it is possible to do the work of the world in a fraction of the time normally occupied in labor if machines were allowed to function to capacity and the people had sufficient incomes to buy the goods produced. The question arises—Who is entitled to get the profits from this capacity to produce, made possible by science and invention?

The Common Cultural Heritage.

The orthodox economist claims that the power to produce derives from the combined agencies of land, labor and capital, and that the profit should be allocated to these in certain proportions.

The socialist economist claims that it derives from the application of labor to raw materials, and that the worker should have the profits in the shape of the goods produced.

Social Crediters affirm that it derives mainly from the vast store of inherited knowledge, tradition and skill, created by thousands of benefactors, living and dead, and handed down to us as a communal heritage.

Without this common cultural inheritance our capacity to produce could be little more than that of our primitive ancestors of the stone age. This capacity to produce, being a heritage common to all, therefore justifies a dividend for all.

Man has a moral right to this dividend, but he has an economic right also. When the first two principles of Social Credit are put into operation the machinery of production will become so effective that human labor will become progressively less and less necessary.

Men will be released from toil that the machines can do more quickly and efficiently, and so will have leisure for self-development and the art of living.

But the men so released must be supplied with purchasing power, and, therefore, **must be paid the wages of the machine in the form of a national dividend.**

There are two objections to this: First, financial—"Where is the money to come from?" (we will deal with this hardy perennial later); second, moral—"If a man will not work, neither shall he eat."

We need not waste time on this, though it is a view still widely held. It is purely psychological, an idea that there is some outstanding moral virtue in work itself, and that Satan finds some mischief still for idle hands to do.

When the shackles of the Monopoly of Credit are removed this idea of compulsory work will lose all relation to reality, because it will be impossible to adjust full scale employment to an increasingly mechanised industry. The national dividend is inevitable in a world of progress.

Proper National Accounting.

We come now to the consideration of how these principles of Social Credit will be put into operation and so establish that absolute economic security which is the first and basic requirement of our new civilisation. If most of the ills of the existing system can be traced to the Monopoly of Credit, it is evident that the first thing to be done is make an end of this monopoly.

This Monopoly of Credit does not exist by right or by law but merely by custom. These privileges now exercised by the private banks must be restored to the Nation, to which they belong as a sovereign right, and the right to issue and control all money and credit must be vested in a National Credit Authority, set up by Parliament, and endowed with full powers to carry the necessary financial reforms into effect.

The first duty of this National Credit Authority would be to prepare a National Trading Account, a National Profit and Loss Account, and a National Balance Sheet, in which the true wealth and financial position of Australia would be shown.

This has never been done. All that we have for our guidance is an annual Budget presented by the Treasurer to Parliament and showing anticipated revenue and expenditure for the ensuing year.

There should be no difficulty in preparing these accounts, because there are ample sources of information from the various statisticians, taxation experts, shire councils, boards, insurance companies, banks, etc., to give a fairly accurate idea of Australia as a going concern.

For our purposes, the National Trading Account is the most important, even if we can only use certain figures in an illustrative way without any pretence to their accuracy.

On one side of this Trading Account would be the figures of Total National Production, and on the other Total National Consumption. We need only four items on each side, as follows:

Total Consumption includes (a) Goods and services consumed in terms of money (that is, the equivalent of the total of A payments); (b) Goods exported; (c) Depreciation; (d) Wastage of population (human wealth) by deaths and emigration.

Total Production includes: (a) Goods and services produced (equivalent to the total of A plus B payments); (b) All goods imported; (c) Capital appreciation; (d) All gains in births and immigration.

The National Credit Authority.

When these two sides of the account are added up it would show whether there is a profit or loss on the year's transactions. **In a progressive community, represented by a stable Government, a functioning industry and a consuming public, there should be considerable total National appreciation, and this would be placed to a National Credit Account and amounts drawn against it to make an equation between purchasing power and prices and any other payments deemed necessary by the National Credit Authority.**

It may be appropriate at this juncture to refer to the last item on each side of the Trading Account, though the need for putting a money valuation on the population is self-evident. Population is the Nation's greatest asset and a country devoid of people has no production and no credit.

The value to be placed on each individual cannot be determined accurately, though it has been estimated that a man who has reached the age of 25 years is worth £10,000 to the United States of America.

We will not be so optimistic in our Trading Account, though any parent who has brought a child up through all the stages of his young life till he passes out of the University to earn his own living at 21 to 25 years of age will know how great a price would have to be put on him if all costs had to be reflected in it.

Let us draw up an imaginary Trading Account for Australia for one year:

National Consumption.	**Million**	**National Production.**	**Million**
Goods consumed (A)	**£500**	**Goods Produced (A + B)**	**£1000**
Goods Exported	**150**	**Goods Imported ....**	**150**
Capital Depreciation	**50**	**Capital Appreciation ....**	**200**
Deaths and Emigration .	**100**	**Births and Immigration .**	**250**
Bal. Gross Profit	**800**		
	£1600		**£1600**

The Nation's Profit of £800 million would be transferred to the National Credit Account. But before we deal with this profit and the way it is to be distributed, there are certain important matters to be considered. Douglas regards it as being axiomatic to the propositions he has put forward that **"the real cost of production is consumption."**

That is to say, the real cost of an article is the energy and material used in making it. Expressed financially, its real cost is the sum of wages, salaries and dividends (the A payments) distributed in its production. Its financial cost is the sum of A plus B payments.

The Just Price.

We know that the proportion of A to A plus B payments differs in the production of all articles and the problem is how to establish a **just price** for collective consumption. As Douglas says:

"The public does not buy machinery, industrial buildings, etc., for personal consumption at all. So that, as we have to distribute wages in respect of all these things, and we want to make these wages real money, we have to establish a relation between total production, represented by total wages, salaries, etc., and total ultimate consumption, so that whatever money a man receives, it is real purchasing power. This relation is the ratio which total production of all descriptions bears to total consumption and depreciation."

This ratio then determines the Just Price of an article. The formula for this Just Price or Compensated Price is stated by Douglas in this way—"Price shall bear the same ratio to Cost as the total National Consumption of all descriptions of commodities does to the total National Production of Credit—i.e.,

Cost: Price :: Production: Consumption.

It is expressed mathematically in this way—

$$\text{Cost per article} \times \frac{\text{Consumption}}{\text{Production.}}$$

This is more easily understood if expressed in figures:

$$\text{Financial cost of article £6} \times \frac{\text{Consumption £1,000,000}}{\text{Production £2,000,000}}$$

$$= £6 \times \tfrac{1}{2}$$

$$= £3.$$

Therefore the Just Price Factor is .. .. ½;
the Just Price Discount is .. 50%;
the Just Price is .. .. .. £3.

Whether it would be advisable to always sell at the Just Price is a matter of policy. Let us return to our imaginary Trading Account for Australia and see if we can distribute the amount of £800 million standing to Australia's credit in the National Credit Account.

We said at the outset it would be necessary to create and restore in some way the sums in prices cancelled by the Banking System and use the money, either to reduce prices or increase purchasing power, or a combination of both.

We have now in this profit of £800 million the necessary sums previously cancelled. Suppose we allocate it in such a way as to **increase** purchasing power and also **decrease** prices:

NATIONAL CREDIT ACCOUNT.

	Million		Million
To Profit from Trading Account ..	**£800**	**By Just Price discount 25%**	**£250**
		„ Nat. Dividend 25%.. ..	**250**
		„ National Services	**200**
		„ Redemption Nat. Debt ..	**100**
	£800		**£800**

You will notice that the costs of production (A + B) were £1000 million, and the A disbursements were £500 million. The gap is £500 million. By distributing the profit, as shown, the Just Price discount of £250 million reduced the price of the goods to £750 million, and the 25 per cent. Dividend of £250 million increased the purchasing power to £750 million, and the necessary **Equation** was established. We shall have to leave further discussion till next week.

SEVENTH LECTURE.

How the National Credit Authority Would Function.

Last week we discussed the way the Just Price of an article was determined and how the total National Appreciation of Wealth over a given period could be allocated.

It must be clearly understood that the figures given were merely illustrative of one method of the practical application of the principles of financial and economic reconstruction laid down by Douglas in the Principles of Social Credit he put forward.

In this lecture we shall proceed to show how the retail discount can be made available to individual consumers. As the term implies, the discount only applies to consumable goods **at the point of sale**—that is, when they pass into the hands of consumers over the retailer's counter, or its equivalent.

Goods in intermediate stages of process or which are constituents of ultimate goods do not qualify for the discount. For instance, grain sold to a miller is an intermediate product, but grain sold to a bird fancier is not. Coal sold to a gasworks is not an ultimate product, but coal sold to a householder is.

As the discount is a retailers' proposition, all retailers desirous of doing business on a discount basis would register with the National Credit Authority, and such registration would be noted on their place of business and on all invoices, dockets and receipts issued by them.

One of the terms insisted on would be that every firm so registering must agree to limit its profit to a certain percentage determined by its rate of turnover. The accepted normal rate in each particular business would probably be the basis of such agreement.

The National Credit Authority would establish certain accounting periods—say, three, six or twelve months, as proved most suitable—and would publish the amount of the National Dividend and the National Price discount rate for the period and also the date on which they would become effective. To make business easier, all consumers would have a banking account and cheques would be used wherever possible.

All registered business would be authorised and compelled to issue sales slips, properly receipted, to consumers for all goods purchased by them. Payments would be made in the ordinary way by cheques or currency and the full prices charged.

The purchaser would then lodge his receipted retailer's slips with his own bank and the bank would credit the amount of the discounts shown to the purchaser's banking account.

The total sums credited by the Banks to depositors in this way would be reimbursed to them by the National Credit Authority from the amount in the National Credit Account allocated for the purpose.

It is assumed that the Banks would co-operate with the National Credit Authority in this way and would charge an equitable sum for the service rendered. The exceptionally valuable and efficient administrative powers of existing banks would be of tremendous value in making the scheme work smoothly. It would be a business proposition, and the question of nationalisation of Banks would need not be considered.

Advantages of the Retail Price Discount.

Businesses that failed to register could not hope to remain in business as their customers would not be entitled to the discount, and so would transfer their custom to the registered shops.

There would, of course, be every reason why all firms should register. There would be no point in a firm remaining outside the scheme.

By using the Just Price Discount in this way it is evident that the prices of consumable goods would be reduced below financial cost and the capacity to buy greatly increased.

If we look at the figures we used last week we will see that the Just Price Discount was 25 per cent. This means that an article priced at £4 would cost the consumer only £3, and, moreover, the consumer would have an extra £1 in the shape of a National Dividend to help his purchase.

It may be said that this method of doing business is more complicated and entails more work for both consumer and retailer than at present, without taking into consideration the staffs needed by the Banks and the National Credit Authority.

Well, any objection on the score of work can be ruled out, as there would be plenty of labor available if this scheme were put into operation. The obvious advantages quite outweigh small and somewhat imaginary disadvantages.

In reality the scheme is quite simple. In the huge co-operative organisations in England, which serve twice the population of Australia, all details, including the calculation of periodical discounts and rebates to millions of individual members, are kept effectively and the business runs like clockwork.

An organisation that can register the manpower of Australia, supply identity cards and ration books to everybody and keep track of all of them would find the issuing of a retail discount and a national dividend a comparatively easy matter.

There is an alternative method of distributing the retail discount, though the one I have mentioned is the one favored by Douglas. In the alternative method the retailer sells at his usual price, less the prescribed discount. For instance, if the discount were 25 per cent. he would sell an article priced at £4 for £3. He would keep a proper record of all sales and then lodge them with his Bank. The Bank would credit his account with the corresponding amount of the discount and the Bank, in turn, would be reimbursed, as in the other alternative, by the National Credit Authority.

For purposes of illustration let us suppose that a retailer under this method of business buys goods costing £160 every week and he borrows this money from the National Credit Authority. He adds, say, 25 per cent. or £40, to cover his expenses and profit for the week, so his total selling price in ordinary circumstances is £200. The discount rate is 25 per cent., so he sells his goods for £200, less £50, or £150.

That is, he is selling his goods at £50 below financial cost and on presentation of his vouchers at the Bank he is reimbursed by the Bank for that amount. Assuming he had a balance at the Bank of £100 at the beginning of the week, this is how his books would show:

To Balance brought down	**£100**	**By Purchases ....**	**£160**
„ Advance from N.C.A. .	**160**	**„ Expenses and Profit..**	**40**
„ Sales to Customers ..	**150**	**„ Repayment, N.C.A. ..**	**160**
„ Retail Discount	**50**	**„ Balance ....**	**100**
	£460		**£460**
To Balance brought down	**£100**		

In both alternatives the goods are sold under financial cost without loss to the retailer or the manufacturer and the disparity between purchasing power and prices partly bridged. **It is completely bridged by the additional issue of a National Dividend.**

The National Dividend.

This dividend, as by the illustrative figures given in our previous lecture, would be of the same total amount as the total of the retail discount, **and would be paid by the National Credit Authority direct to individuals either through the Post Office, as pensions are now paid, or direct by cheques.**

If these were paid to individuals with overdrafts, provision would have to be made that such cheques would not be used to offset any of the overdraft.

I do not doubt that both the discount schemes could be put into operation very easily. Only experience and a period, perhaps, of trial and error would determine the easiest and most effective methods of administration.

Personally, I think a combination of the two would be necessary. For instance, services such as transport, amusements, and any form of business where tickets are issued, and retail shops selling fruit and perishable goods, where quantities and qualities depend on indeterminate factors, would probably be better served by the second alternative.

For the great bulk of consumable goods probably the first alternative is the better, but experience only will determine this.

I have stated that C. H. Douglas is more concerned with establishing sound principles of social reconstruction than on laying down definite concrete proposals. He recognises that principles are of universal application, but plans and proposals are not. No country is in the same state of political and social development as its neighbour or has the same economic elasticity.

It is quite evident that principles of reform must be applied in conformity with the needs and conditions of the country adopting them and within the ambit of these principles each country must work out its own salvation.

However, Douglas did, by special request, many years ago, draw up a draft Social Credit Scheme for Scotland in case the time should come when Home Rule would be granted to that country. There are certain points in that scheme that I should like to bring before you because they may throw some light on the practical application of Social Credit in Australia.

Douglas's Scheme for Scotland.

In this scheme for Scotland the Initial National Dividend would be based on 1 per cent. of the Capital assets, reckoned at their replacement value, plus the commercial capitalised value of the population of Scotland. Such dividend, estimated at £75 per person per annum, to be paid monthly through the Post Office. No dividend to be paid to persons whose annual income from other sources is more than four times the amount receivable in respect of the National Dividend.

To guard against any drastic reduction of wages by the employers to offset the dividend the wage rates ruling in 1928 were to be taken as a basis. The employers in their turn are protected by an agreed reduction of wages from the 1928 level of 25 per cent. or by a figure representing 20 per cent. of the National Dividend, whichever is the smaller.

This is best understood by examples:

1. Wages £100; Dividend £75. 25 per cent. on Wages is £25; 20 per cent. on Dividend is £15. This is the smaller, so wage is reduced by £15 to £85. This, added to the dividend of £75, makes a total income of £160 against the original wage of £100.

2. Wages £100; Dividend £150. 25 per cent. on wages is £25; 20 per cent. on dividend is £30. The wage reduction is the smaller, so the wage is reduced to £75. This, added to the dividend, makes a total income of £225 against the original wage of £100.

There are several distinct advantages in this provision. It enables the employer to reduce costs, specially when meeting overseas competition, and it also protects the employee from drastic wage cuts.

It also provides for a steady increase in the dividend and makes the disparity less and less between the total income of the man in work and the man with an income from the dividend only.

Finally, taxation on specific articles or specific forms of property to be abolished. Any taxation to take the form either of a flat non-graduated taxation of net income or a percentage ad valorem tax upon sales, or both forms of taxation together.

This means, of course, that tariff duties and taxation on property will be abolished.

These points taken from the Draft Scheme for Scotland should be taken into consideration in any scheme put forward for Australia and I suggest that they should be discussed by members of this class in future debates as part of their tutorial training.

Cancellation of Credit.

There remains one aspect of the question which has caused and still causes a lot of discussion and doubt, and that is the cancellation of the credits provided by the National Credit Authority to pay the Retail Discount and the National Dividend. Orthodox critics and opponents of Social Credit assert that such credits, because they do not flow through production, are never cancelled and, therefore, will keep mounting up till the community is so choked with money that it will be valueless.

The first principle of Douglas is to establish an equation of purchasing power and prices, and the cash credits to make this possible must only be cancelled on the purchase or depreciation of the goods.

If, for instance, an article is priced at £10 and loan credit only provides £5 wherewith to purchase it and that loan credit when so used is cancelled as purchasing power, it seems inevitable that the £5 of cash consumer credit, issued and used to complete the purchase, must also be cancelled as purchasing power.

It is an axiom in economics that purchasing power is cancelled in consumption. We have already pointed out that all money disbursed for the retail discount and the national dividend is debited to the National Credit Account and is therefore cancelled by the ordinary bookkeeping technique.

To-day the British Government is using a price compensating scheme to reduce the prices of food and essential commodities to the extent of over £200,000,000 a year. This money does not flow through production, but will any critic assert that this money remains in the community and is not cancelled out in the prices of the goods?

For many years Australian Governments have been subsidising primary producers and the total amounts to many millions of pounds. These subsidies were free gifts from the Government and did not come through production. Does anyone really believe this money is still in circulation or that there is any real difference between these subsidies and the price discount and national dividend? I think not.

We have now completed the course mapped out at the beginning and it has taken more time than we intended. The subject is a large one and you must realise that many aspects of it have been merely hinted at or remain untouched.

What we set out to do was to examine the existing system, find out the flaws that prevent its effective functioning and to present a remedy. Have we been able to do this?

Resume of Tutorial Course.

Let us go rapidly over the ground we have covered. The objective of Social Credit is a New Civilisation, nurtured in Freedom and established in Security. The first and basic requirement of this is absolute economic security. This requirement exists nowhere to-day. The reason is that we live in an economy in which the true objective of delivering goods and services to the limit of demand by consumers is frustrated by a wrong money system.

This money system, which should be controlled by the Government **for the benefit of the people,** is controlled by the private banks for power and profit for themselves. The private banks thus constitute a Monopoly of Credit, and this monopoly operates to produce a permanent and increasing disparity between total purchasing power and total prices.

This disparity manifests itself in unsold goods, unemployment, poverty, the burdens of debt and taxation, economic insecurity, struggles for markets, international friction and war.

The obvious remedy for these evils is to do away with the causes of them. We have not found any outstanding faults in the present industrial system as a producer of goods and services. Under private enterprise, industry functions efficiently and can provide for all the material needs of the community. It would be folly to abolish private efficiency and enterprise governed by individual energy and ability and substitute public inefficiency governed by bureaucracy. The remedy is not to substitute the State for the individual, socialism for private enterprise. It is not a question of **administration** at all; the remedy lies in **policy**.

The fault definitely lies in Distribution—Money—the Monopoly of Credit and the policy that governs them. This policy of issuing financial credit as an interest-bearing debt through production and the subsequent accounting of all costs into prices without distributing a sufficient money equivalent to liquidate them give rise to the economic evils we have mentioned.

We believe that under the principles laid down by Major Douglas the proper remedy for these evils has been found. What then does this remedy do?

Advantages of Social Credit Summarised.

1. **It abolishes the Monopoly of Credit and restores to the State, to which it rightly belongs, the creation and control of money and credit through a National Credit Authority.**
2. **It removes the basis of financial credit from currency and places it on the ascertained capacity of the nation to produce goods as, when and where required, thus making financially possible what is physically possible.**
3. **It establishes a mechanism whereby the disparity between purchasing power and prices is removed and equation is subsituted for alternate inflation and deflation.**
4. **It eliminates the unnecessary struggle for foreign markets and thus takes away the primary cause of war.**
5. **It does away with the necessity of saving purchasing power for a precarious future and enables men to live full and complete lives from day to day.**
6. **It provides, as a natural right for all men, a national dividend from the abundance made possible by science and invention and the common cultural heritage of civilisation.**

In this way absolute economic security is established and with it the true freedom of mankind. Having achieved this basic requirement, all things are possible.

If we have any vision we can see a world of prosperity and peace, a world full of highly developed, noble and happy people, a New Civilisation into which we can enter by the adoption of these principles. Our task is to make the Australian people see them and believe in them as we do.

Personally, I believe that a persistence in the present financial system means the doom of civilisation as we know it. The visible alternatives are Communism and Chaos. The real alternative is Social Credit if we accept the analysis of Douglas and his principles of social reconstruction.

We live in a world that could be made a place of joy and health, a place of plenty and security, if we are wise enough to use properly and courageously the opportunities and knowledge that are available to us. Douglas has shown us how to use them and this should be our message to the world.

As I said at the outset of these lectures, Social Credit is more than Economics; it is a great Light and a great Truth; a Light to guide our feet and a Truth to make us free. Unless we, as Social Crediters, believe this with all our heart and soul and strength we cannot adequately fight the forces of evil against us.

Douglas's Confession of Faith.

In one of his speeches Douglas made a confession of the faith that is in him. We all subscribe to the intellectual pre-eminence of Douglas; this quotation I am about to read shows us the strength and fundamental greatness of the man himself.

"Now, it is my own belief, and I might almost say that it is almost my only religion, that there is running through the nature of the Universe something that we may call a 'canon.' It is the thing which is referred to in the Gospel of St. John as the 'Logos,' the 'Word.' (Logos—'The Word' or 'Reason.') 'The Word (Logos) was with God and the Word was God.' Social Credit is based on Truth and Reason.

"It (the canon) has an infinite variety of names. The engineer and the artist refer to it when they say they have got something 'right.' Other people mean the same thing when they talk about absolute **truth** or **reality.** By whatever name you wish to refer to this idea, it does not matter very much; we all instinctively recognise its existence. . . .

"Genuine success only accompanies a consistent attempt to discover and conform to this canon in no matter what sphere our activities may lie.

"For instance, I have no doubt whatever that there is one single test which can be applied to any financial scheme which is put before you for your consideration, and that is, **whether it**

represents reality, just as we know that the **fundamental falsity of the present financial system is that it distorts and perverts reality.**

"I am confident that single-mindedness of purpose directed to the pursuit of this canon to which I have referred is the only thing of absolutely primary importance in any undertaking.

"Given that, forms of organisation and other mechanisms for the attainment of the end, necessary as they undoubtedly are, will, as one might say, provide themselves both at the right time and in the most perfect form that the necessities of the case require.

"Because the canon is a spiritual thing, the forms embodying it are of infinite variety, and, not only that, change from time to time, and a slavish adherence to the form is a certain method by which to miss the canon.

"I am confident, however, that just as departure from the canon has produced the appalling condition of the world at the present time, so the existence of a growing body of people who are aware of the situation, and singly devoted to bringing back **UNDERSTANDING into relation with REALITY**, constitutes not only the great, **but the only certainty that a world system founded upon LIES will give way to one formed upon TRUTH."**

In commending Douglas's confession of faith to you, I can only hope that you can accept it as your own.

TERMS AND DEFINITIONS.

1. Economics.

1. What is Economics?

"Economics is the science that investigates the conditions and laws affecting the Production, Distribution and Consumption of material Wealth or of the means of satisfying human desires."—Webster.

"Economics is the study that deals with the supply and management of man's material needs."

"Economics is the science of our daily bread."

The **Economic System** is the name given to man's organised activities in providing his material needs.

The **true function** of an Economic System is to produce and deliver goods and services as, when and where required.

2. Is Economics an exact science or are there several theories of it?

Economics is not an exact science and there are many theories about it. The main ones are or have been: Mercantilism, Orthodox or Classical Political Economy; Socialism; Communism; Single Tax; Social Credit.

MERCANTILISM was the main economic theory of the 16th and 17th centuries. Its main tenet was that a nation's wealth was to be judged by the amount of precious metals it possessed in the form of coin or bullion. It encouraged exports and discouraged imports in order to have a favorable money balance in trading.

ORTHODOX or CLASSICAL POLITICAL ECONOMY was expounded by Adam Smith in "The Wealth of Nations," and by Ricardo and Mill. It taught that the factors of production were land, labor and capital and that a country's wealth depended on open competition and freedom of action in trade and commerce, with prices and production automatically controlled by the law of supply and demand. As its tenets were developed before the machine age they naturally reflect the ideas of an age of material scarcity.

SOCIALISM has many variations, but its main theory is that economic and financial control by the State is best for the community as a whole and that the State should be the sole employer, with production for use only and not for profit. It believes that the only factor in wealth is labor applied to raw materials and, therefore, as all wealth is created socially, it should be owned socially.

COMMUNISM is a more violent and materialistic form of Socialism and believes in the class struggle and revolution by force as advocated by Karl Marx. Its chief tenet is the absolute supremacy of the State over the individual. It aims at complete regimentation for a work State.

SINGLE TAX is associated with the teachings of Henry George. He asserted that poverty associated with progress was an anomaly and was due to the fact that access to land was prevented by private ownership. His solution was to make land a Government monopoly and that the rent from the land in the form of a Single Tax should provide the revenues of the State. As a corollary to this, tariffs should be abolished and free trade be universal.

SOCIAL CREDIT is a theory particularly associated with Major C. H. Douglas, who first propounded the idea in "Economic Democracy." It is often spoken of as The New Economics. Its theory is that the economic and financial system should reflect the facts of an age of plenty; that, to do this, the control of money and credit should be vested in a National Credit Authority instead of the private banking system; that purchasing power and prices should always be equal and that the national dividend should progressively displace the wage and salary as science and machinery make employment progressively less necessary. It believes that the nation's capacity to produce wealth derives chiefly from the common cultural heritage of civilisation and that this should provide complete economic security.

3. What are the three main policies of economic world-organisation?

(a) That it is an end in itself—e.g., The Work State—Communism.

(b) That it is a constraining means to control the individual—e.g., A Hidden Government—Finance.

(c) That it is a functional activity allowing for free expansion of individuality and one which most easily and rapidly supplies economic wants without encroaching on other functional activities, e.g., A New Civilisation—Social Credit.

2. Wealth.

1. What is Wealth?

"Wealth is all objects, particularly material objects, which have economic utility."—Webster.

"The Wealth of a nation is only to be estimated by what it consumes."—Ruskin.

"There is no Wealth but LIFE."—Ruskin.

"Wealth is the rate at which a nation or any other corporate body can deliver goods and services conducive to well-being."—Douglas.

"The Wealth of a nation is its ability to deliver goods and services when and where and as it requires them."—Colbourne.

"Wealth is capacity to produce and consume."

3. Production.

1. What is Production?

Production is the term applied to all those processes and activities of Industry whereby things are changed from one form to another so as to make them available for Consumption.

NATIONAL PRODUCTION is the sum total of goods and services produced by any community over any given period.

PRIMARY PRODUCTION is the first commercial production made from virgin natural resources—Agriculture, Mining, Fisheries, etc.

SECONDARY PRODUCTION is production made from primary or secondary products for intermediate or ultimate goods.

INTERMEDIATE GOODS are goods produced from raw materials or secondary products and passed on as unfinished products to another stage in Industry.

ULTIMATE GOODS are goods that have passed through all stages of development or manufacture and are ready for sale to the consumer. They can be both primary and secondary goods.

RAW MATERIAL is (a) the virgin product of nature or (b) the basic material of intermediate production. It may be primary or secondary.

OVERPRODUCTION is production in excess of a country's needs or the community's capacity to pay for them.

UNDERPRODUCTION is the opposite of Overproduction.

SERIES PRODUCTION is the total of industrial operations in the production of ultimate goods from the raw material through all stages of manufacture.

CYCLE OF PRODUCTION is the period embraced in producing a primary or secondary article, complete in itself for ultimate consumption, or to be used basically with other products in the production of further ultimate or intermediate goods.

4. Consumption.

1. What is Consumption?

Consumption is the term applied to all means employed in consuming or using the products of Production.

Use, Waste, Depreciation, Destruction and Sabotage are all means of Consumption.

"Consumption is the end and aim of Production."—Adam Smith.

5. Distribution.

1. What is Distribution?

Distribution is the term given to the process of transporting goods and services from Production to Consumption by the agency of Money.

In Socialist Economics **Distribution** is the term given to the physical process of transporting goods and services and the financial agency is called **Exchange.**

2. What is Money?

"Money is any medium that has reached such a degree of acceptability that, no matter what it is made of, and no matter why people want it, no one will refuse it in exchange for his product."—Professor Walker.

"Money is buying power."—Douglas.

"Money is a licence to acquire goods and services."—Douglas.

"Anything that serves the purposes of Money is Money."—Douglas.

"Money is merely a ticket system."—Douglas.

3. What are the essentials of Money?

(a) Acceptability; (b) Exchangeability.

4. What is Currency?

Currency is all forms of Money in circulation as buying power.

5. What are these forms of Money?

In Australia they are (a) Silver and copper coins; (b) Bank Notes; (c) Bank Credit.

Coins are made in the Government Mint; Notes are made and issued by the Commonwealth Bank for the Government. Coins and Notes are constitutional currency or legal tender; Bank Credit or Cheque currency is not legal tender.

6. What is Bank Credit?

Bank Credit is an intangible form of Money created by the private Banks, operated by Cheques and represented by figures in ledgers.

7. What is a Cheque?

A cheque is a bill of exchange payable on demand.

8. A Bill of Exchange is a written order from one person to another for payment at some future specified date.

9. What is Discount?

Discount is the amount deducted by a person paying cash for goods or for any negotiable Bill of Exchange or Credit instrument.

Real Credit and Financial Credit.

10. What is REAL CREDIT?

Real Credit is a well-founded belief in the capacity of a communty to produce and deliver goods and services as, when and where desired.

11. What is FINANCIAL CREDIT?

Financial credit is a monetary reflection of Real Credit, that is, a well founded belief in the capacity of a community to deliver money as, when and where required.

12. What is PUBLIC CREDIT?

"Money and Credit are neither the sole creation of Government or Industry; they are the joint creation of a stable Government, a functioning industry and a consuming public, and if you take any of these three out, there can be no such thing as Public Credit."—Douglas.

13. What is PURCHASING POWER?

Purchasing power is the money used in buying consumable goods. It is distributed by Industry in the form of wages, salaries and dividends direct to individuals.

14. What is INFLATION?

Inflation is an increase in Money, accompanied by an increase in Prices in the same ratio. It means more money than goods.

DEFLATION is the opposite of Inflation.

EQUATION is a balance of Purchasing power and Prices.

15. What is the QUANTITY theory and the VELOCITY theory of Money?

The older quantity theory was that Price is determined by the amount of money in circulation divided by the amount of commodities for sale.

The more modern theory incorporates **Quantity and Velocity.** It is as follows: "Prices must, as a whole, vary proportionately with the quantity of Money and the velocity of circulation and inversely with the quantity of goods."

Professor Copland states: "A given unit of Money will circulate many times in a given unit of time. It will make many payments because it has what economists call velocity of circulation."

Professor Buchu, in "Free Money," states: "The quantity of Money in circulation multiplied by its own rate of velocity constitutes the total of effective demand."

Major Douglas says that the belief that velocity of circulation increases purchasing power is a **major fallacy.**

16. What are SAVINGS?

Savings are Money distributed as purchasing power and not so used, but put aside for investment in further production.

HOARDING is purchasing power unused as such or for investment, but put aside as an insurance against future financial insecurity.

6. Banks and Banking.

1. What is a NATIONAL BANK?

A National Bank is a bank owned and controlled by the State. It has no shareholders and its profits go to the State.

2. What is a PRIVATE BANK?

A private bank is a bank owned and controlled by shareholders for profit. It trades in Credit, which it manufactures and sells as a Commodity, and by the granting of overdrafts creates the deposits of its customers.

3. What is a SAVINGS BANK?

A Savings Bank is a bank that accepts cash deposits from its clients up to a limited amount and pays interest on the money thus deposited. It does not create Credit but relends its depositors' money at a higher rate of interest.

4. What is a DEPOSIT?

A deposit is a sum of money placed to the credit of a bank client by the paying in of cash or cheques.

A FIXED DEPOSIT is one on which the Bank agrees to pay interest for a certain period, during which the depositor cannot draw against it.

A CURRENT DEPOSIT is one on which no interest is paid and against which the depositor can draw by means of cheques.

An OVERDRAFT is a limited amount of credit granted by a bank to a customer over and above his current account, the repayment of which on demand is guaranteed by the customer pledging realisable assets.

5. What is EXCHANGE?

Exchange is the system by which titles to commodities in and from foreign countries are transferred by credit documents through the agency of the Banking System.

The Rate of Exchange is the percentage of difference between the values of currencies as purchasing power in different countries.

7. Social Credit.

1. What is SOCIAL CREDIT?

"Social Credit is the belief inherent in society that its individual members in association can get what they want." —L. D. Byrne.

(See page 2—SOCIAL CREDIT.)

2. What are the AXIOMS of SOCIAL CREDIT?

(1) Financial Credit is a monetary reflection of Real Credit.

(2) Real Credit is a correct estimate and belief in the capacity of a country to produce and deliver goods and services as, when and where desired.

(3) The cost of Production is Consumption.

(4) Money has no value in itself.

(5) What is physically possible is financially possible.

(6) Costs and Prices are two ends of the one thing.

3. What is the PHILOSOPHY of Social Credit?

(1) Systems exist for men and not men for systems.

(2) Co-operation must be the co-operation of reasoned assent, not regimentation in the interest of any system no matter how attractive.

(3) The end of man, while unknown, is something to which most progress is made by the free expansion of individuality.

(4) We must build up from the individual, not down from the State.

(5) The basis of Freedom is absolute Economic Security.

(6) There is running through the nature of the Universe "canon," which we instinctively recognise as Right, Truth, Reason. Departure from this canon is the cause of world evils; adherence to this canon will bring back Understanding into relation with Reality and ensure that a system founded on Lies will give way to one formed on Truth.

4. What is the Douglas ANALYSIS?

"That the wages, salaries and dividends distributed over any given period of time do not, and can not, buy the product of that period, and the whole of production can only be bought by a draft and an ever-increasing draft on the purchasing power distributed in respect of future production, which purchasing power can only come from fresh Bank loans and overdrafts."

5. What are the Douglas PRINCIPLES OF RECONSTRUCTION?

(1) That the cash credits of the population of any country shall at any moment be collectively equal to the collec-

tive cash prices for consumable goods for sale in that country (irrespective of the cost prices of such goods), and such credits shall be cancelled or depreciated only on the purchase or depreciation of goods for consumption.

(2) That the credits required to finance production shall be supplied, not from savings, but be new credits relating to new production, and shall be recalled only in the ratio or general depreciation to general appreciation.

(3) That the distribution of Cash Credits to individuals shall be progressively less dependent upon employment. That is to say, that the dividend shall progressively displace the wage and salary, as productive capacity increases per man hour.

Just Price Formula.

6. What is the JUST PRICE?

The Just Price of an article is the price representing its true cost. It is determined by the ratio which total production of all descriptions bears to total consumption and depreciation.

The Just Price is also called the COMPENSATED PRICE.

7. What is the JUST PRICE FORMULA?

This is the mathematical formula used to determine the just price of an article in relation to its financial cost.

(See Page 71.)

The "just price" of any article is the cost of the goods actually CONSUMED in its production.

"The cost of production is Consumption."

THE PHILOSOPHY OF SOCIAL CREDIT

During the early days of the Social Credit Movement lecturers laid great stress on the A and B theorem, the Just price regulating factor and other technical aspects of the New Economics.

Perhaps they overdid this, but it provided a sound and necessary basis of knowledge. In more recent years they have gone to the other extreme and have concentrated on bank-created credit, debt and taxation.

My experience in the Tutorial Classes confirms a belief I have long held that the successful teaching of Social Credit as a practical reform must include both these aspects; they are complementary to each other.

But Social Credit is much more than a reform and a change in the financial system; it is a PHILOSOPHY, and my experience has taught me also that we have not given sufficient consideration at any time to this vital aspect of our teaching.

When we go out to preach Social Credit we find there are two powerful groups opposed to us—one representing conservatism and the vested interests that we may term the Sound Finance group; the other representing the mass of wage and salary earners that we may term the Socialist group.

These groups oppose one another, but they both agree to oppose Social Credit. Each stands for a definite Social and Economic system, and so does the Social Credit group.

Now Douglas, in one of his most important and valuable utterances, has stated that a Social and Economic system represents "the policy of a philosophy" and he defines "policy" in this connection as "action consciously directed towards a given objective."

If we look at the philosophy of Sound Finance we must recognise that the policy directed to make it effective develops into a system akin to Fascism. If we look at the philosophy of Socialism we must recognise that the policy directed to make it effective develops into Communism.

Both of these policies lead to a system of centralised control in the hands of a few—one through finance, the other through bureaucracy.

Both tend to destroy individual initiative—one by debt and taxation, the other by the elimination of private enterprise.

Both represent the will-to-power—one by money control, the other by political and social organisation.

Both believe in policy imposed from above—one by law and necessity, the other by force.

Both suppress individual freedom—one by economic compulsion, the other by economic regimentation.

Both have false ideals of an economic system—one as a means to make profits, the other as a means to provide employment.

Both believe in the Work State—one because it objects to leisure, the other because it conceives work as the only economic security.

Both believe that men exist to serve a system—one because it worships the supremacy of finance, the other because it worships the State as an abstraction.

As Social Creditors we disavow both these philosophies and the policies and systems that grow out of them. They are the enemies of progress and liberty and the negation of the free spirit of man. The philosophy of Social Credit is entirely opposed to them.

Social Credit believes in decentralised control, with the foundations of society laid on the complete independence of the individual. It believes that policy should come from the community through building up from the Individual, not down from the State.

It believes that systems are made for men and not men for systems.

It believes that the future of the world lies in co-operation, but only in the co-operation of reasoned assent, not in the forced co-operation of regimentation. It believes that the economic activity is simply a functional activity of men and women in the world and that progress is most rapid and effective through the free expansion of individuality.

It believes that science and invention must not be used to enslave men, but to free them from unnecessary work and so give them leisure and the chance of self-development.

It believes that men have "an inalienable right to life, liberty and the pursuit of happiness."

It believes that the system under which men live must represent truth and reality and not lies and falsity.

It believes that this system should develop a community of diversified and independent individuals and not a mass of standardised and servile ones.

It believes that this system should give not only security, but freedom, and that freedom, security and peace are one and indivisible.

It believes that every individual is a shareholder in the common heritage of Civilisation and that the wealth that flows from this heritage is part of his birthright.

It believes that absolute economic security is the first and basic requirement of a New Civilisation in which every man will be entitled "to sit under his own vine and under his own figtree and none shall make him afraid."

Unless we believe in this philosophy of Social Credit it is useless to bother about anything else. If we do believe in it then we must advocate the principles and policies to make it effective.

These principles and policies are embodied in the works of C. H. Douglas and it has been my endeavor to convey them to the Tutorial Class as far as my ability permits me to understand and expound them.

Any failure to do this is entirely due to myself and not to the man whom we all honor as our teacher, guide and philosopher in these matters.

(The above was part of the report on the Tutorial Classes given by the tutor, Mr. W. Stones, to the Annual Conference of the Social Credit Movement of New South Wales, 1944.)

INDEX.

INDEX.

INDEX.

INDEX.

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