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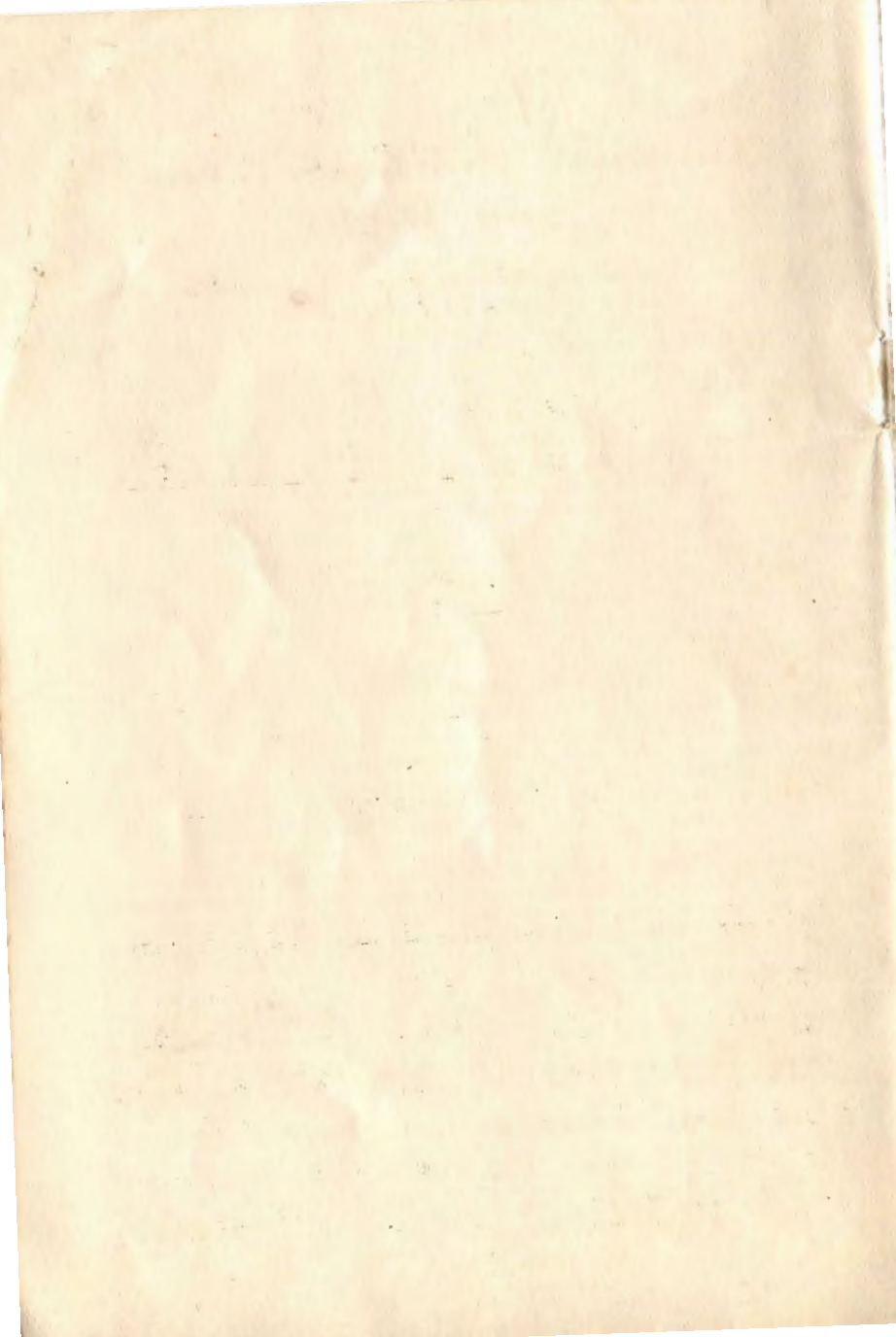
# WHAT ROAD, AUSTRALIA

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*By William Stones*

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**Many discerning minds have agreed that the masterly analysis and new principles put forward by William Stones in this booklet hold the solution to the problems of political and economic chaos.**



# **National Politics – Wrong and Right**

World conditions are tragic and have been so for many years.

The two world wars aggravated these conditions, but were not primarily responsible for them; they were the culminating symptoms of inevitable economic crises.

Before the first world war there were serious social and industrial troubles all over the world and after it the greatest depression in history.

Going back to the beginning of the industrial era and following through to the present time we find a regular sequence of booms and slumps, mushroom prosperities and financial disasters, accompanied by a constant condition of poverty and misery for the majority of the people.

These things happened, not in the backward nations, but in the highly advanced ones, and in a period when the capacity to produce abundantly was growing greater and more effective year by year and at a much faster rate than that of the population.

Conditions such as these should have ensured complete economic security and prosperity for all citizens of these advanced nations but, instead, they produced the phenomenon of what has come to be widely known as "poverty amidst plenty."

Surely this is conclusive proof that our economic system was and is functioning very badly and that vital reform is necessary to keep pace with industrial capacity, the march of science and the needs of the people.

Why poverty and want should exist in the midst of actual wealth and abundance and in an economy capable of producing much greater wealth and abundance is a problem that economists, reformers and politicians have been trying to solve for more than one hundred years.

If the problem were academic only or a mental exercise for economists we could dismiss it. But, in truth, it is the most vital problem of our age, the modern riddle of the Sphinx which we must either solve or perish.

It involves all fundamental freedoms, all forms of government, all ways of life.

Around it centre the major questions of employment, living conditions, social security, housing, industry, exports, markets and war.

## ***The Problem Becomes Terrifying***

Today the problem is more acute than ever and all charters, conferences, international organisations, world banking schemes, etc., are ample evidences of its size and urgency; it has become the nightmare of the governing authorities of the world.

As before stated the problem is not new, **only more terrifying**. It has been acute since the early part of the nineteenth century when Robert Owen launched his schemes of Utopian Socialism.

Since his day there have been many attempts to find the root causes of the troubles besetting the world, many solutions propounded, many reforms advocated and many movements started to improve, change or abolish the system that has been operating from the beginning of the industrial era to the present time.

In spite of all these efforts the system, in the so-called democracies at any rate, has survived and maintained its original character whilst vast political and social changes have taken place everywhere and today it is being supported on the one hand and assailed on the other with tremendous passion and force and world strife centres on whether it shall continue or be abolished.

We see everywhere the collapse of old countries and institutions under the pressure of new policies and new imperialisms. We see also that the tendency to world governments and internationalism is being offset by a growing revolt against old imperialisms and a passionate desire for more national self-expression and independence.

Political, economic and racial ideals are clashing everywhere and great changes are taking place in a ferment of ignorance, fear and uncertainty which frustrates the universal desire for peace and security.

Australia is caught up in this universal ferment and her future will be influenced to a large extent by the clash of world forces.

## ***Parliaments and Parties***

In the clash of opposing ideas and systems that is inevitable, vital changes will be made, not only in the lives of the people but in the forms of Government.

It must be evident that the Parliamentary system, which has evolved through the years to make government representative of the desires and aspirations of the people, is now being seriously challenged and that the status of Parliament has progressively declined since the beginning of the century.

In many countries the powers of Parliament have passed to dictators and privileged bureaucracies acting for power-seeking minority groups that are in no way representative of the people as a whole.

In the democracies the functions and decisions of Parliament are being increasingly determined by organised pressure groups outside Parliament and members are becoming the mere puppets of powerful sectional interests working either from the right or left.

These powerful groups, grasping power without responsibility, work through the party system in politics and parties have now become the avenues whereby these outside forces hope to attain their own ends.



Parliament, as representing the people as a whole and Government "of the people, by the people, for the people," scarcely exist in any country today.

The tendency to divide into parties or groups is universal and perhaps natural and sound whenever there is discussion on matters of public interest, whether it be parish pump politics or world affairs.

But in all the democracies this tendency to divide is becoming more and more restricted and organised into only two parties and these are presented as the only alternatives.

In world affairs this tendency limits us to a choice between Democracy and Totalitarianism. If you believe in the latter you have to be either a Fascist or a Marxist—they are the only alternatives.

But in the individual Totalitarian countries the restriction of parties finds its logical conclusion. As it was in Hitlerite Germany and still is in Soviet Russia, for instance, only one party is permitted—there is no alternative.

## *Independents Get Short Shrift*

In the Democracies the two party system is rife. In America you are a Republican if you are not a Democrat; in Britain you must be a Conservative if you are not a Socialist; in Australia you are a Labourite or an Anti-Labourite.

In all cases propaganda insists that there is no other real alternative. Independents get neither support nor publicity; **all are for the party and none is for the State.**

In a democracy such as ours, where voting is compulsory, thousands vote for one party or the other when they have little or no faith in either to give them the results they want. That is why most elections are negative; they are almost always a vote of NO-confidence in one party without being a vote of YES-confidence in the other.

Electors realise that the main qualification for a candidate is his capacity or luck to get selection from a pressure group and his complete subservience to the party interest. This is one of the reasons why the majority of electors regard politics with indifference and the status of Parliament continually declines.

Perhaps this indifference to both the Labour and Liberal Parties needs some elaboration.

In Australia there has always been a sharp division, outwardly at least, between those who support and those who oppose Labour and all party propaganda is devoted to show there is no alternative to these divisions; if you do not accept the one you must support the other.

This rigidity of party lines may have some advantage in a community where the votes of the majority is the accepted verdict.

It may even be argued that you can only get a majority vote if there are only two parties, and the example of France may be quoted as to the negative effect of many parties.

## *The Soil of Dictatorship*

If the majority were always right the verdict is right and should be accepted, but few will agree that the majority is always right.

Rather do we know that majority verdicts are often wrong and are secured mainly by skilful propaganda put by the cunning few over the ignorant many.

Apart from this aspect the party-regimented vote has serious disadvantages.

It denies the rights of minorities and thereby disfranchises thousands of electors.

It stifles independent opinion and the free discussion of important questions.

It seldom grants fairplay to an opponent and puts a premium on misrepresentation and intellectual dishonesty.

It keeps the best men out of Parliament because the best men are not prepared to sacrifice their personal honour or the public good to party expediency.

In Parliament itself it has reduced debates to an absurdity. All discussions and decisions are based on party lines and all votes in divisions are regimented ones.

It would be difficult to name any bill that has been changed in substance in its passage through Parliament by unprejudiced argument once it has been presented as a party measure.

**This decay of representative government is gradually destroying the conceptions of democracy and is making fertile the soil in which Totalitarianism takes root and flourishes.**

Power, as is so often stated, grows on what it feeds and a powerful party, acting as the tool of ruthless interests, is always reaching out for more power and grows more intolerant to opposition.

It tends to take control of policy completely out of the hands of the people who should determine it and to impose policy rather than represent it.

It aims more and more to centralise control and authority and use this as a weapon of power. It aims to make the individual subservient to the State and to make him fit the system rather than the system fit him.

This tendency is very apparent in Australia at the present time. The rights of the States are being gradually taken away and the functions and duties of local government are being more and more restricted.

The evils of monopoly are to be cured by an all embracing State monopoly and the weapon of taxation is to be solely used by the centralised authority.

Broadcasting is to be mouth-piece of the party in power and the freedom of the press, which means the right of criticism, is to be destroyed.

The tragic results of this drift to Totalitarianism is shown clearly in Europe and should stress the urgent need to arrest this policy in Australia while there is yet time.

Otherwise, we shall inevitably lose the splendid freedoms we have so painfully acquired over the centuries.

## ***Labour's Policy Leads To Marxism***

On the face of things the Labour and Anti-Labour parties in Australia are genuinely opposed to each other. Their policies arise out of philosophies that are fundamentally different.

That of Labour is coloured all through by the "class struggle," the belief that its members are victims of a system of exploitation which has the support of Anti-Labour.

The objective of the Labour Party is the Socialisation of the means of Industry, Production, Distribution and Exchange.

**This is pure Marxism and Communism however much the party may deny that it is Communistic.**

The real philosophy at the back of this objective is that the State is supreme and that the individual merely exists to serve the State.

To achieve this objective the lives and activities of all individuals must be planned and regimented in all aspects and economic security, through work, is to be the be all and end all of existence. Personal initiative and freedom must be abolished and their place taken by regulated work, uniform education and mass thinking.

The policy to make this effective will not be determined by the people but will be imposed upon them, administered by a privileged bureaucracy and disciplined by a secret police force.

**It is doubtful if the blind supporters of the militant leaders of Labour realise the ultimate results of this philosophy and policy, but they lead inevitably to the complete servile State.**

## ***Liberalism and the Liberal Party***

The philosophy behind Liberalism—as distinct from the Liberal Party—is the exact opposite of this. Liberalism is an attitude of mind towards social relationships and human objectives.

It regards the freedom of the individual as of supreme importance.

It believes in personal initiative and effort and is opposed to regimentation and compulsion.

It believes that the less interference there is by Governments in the lives of the people the better it is for the community at large.

It believes in the fundamental freedoms of speech, worship and action.



It believes that all social activities should exist to serve the individual and to promote his welfare, happiness, security and freedom.

This is a noble philosophy and the basis of all sound progress in human affairs.

But the policy of the Liberal Party, unfortunately, **does not reflect this philosophy.**

Neither its record in the past nor its programme for the future can give the results it aims at.

In a realistic world we have to judge policies and political platforms by results. Since Federation there have been alternate Labour and Anti-Labour Governments and few can truthfully say that the conditions of their lives have been seriously altered, worsened or improved by any change of party in office.

The same problems remain and the laws and regulations passed by one Government are maintained and enforced by its successor whether it supported or opposed them when in opposition.

## ***Tweedledum and Tweedledee***

Judged by results there is practically no difference between the two parties. In spite of the reluctance of dyed-in-the-wool party men to admit this, in spite of partisan propaganda at election time which will not acknowledge the obvious truth, there can be no doubt that the conditions of our lives under either party is as Tweedledum and Tweedledee.

**Surely it is one of our prime duties to try and find out why, with such differing philosophies, we arrive at the same result.**

Maybe a remark accredited to Mr. Menzies that whilst theoretically he was an anti-Socialist he was a very practical one, may afford a clue.

But perhaps the explanation is not so difficult after all. The truth is that every party in office is bound entirely by the existing economic and financial system and is forced to work within the ambit of that system.

Each inherits a mass of laws and regulations to keep the system working; each takes over financial commitments and other obligations incurred in the past which it is bound to honour.

Each party is constrained on the administrative side to accept the advice and experience of a permanent civil service which tends more and more to become a powerful and entrenched bureaucracy.

**Finally each retains the same economists to advise on matters of economic and financial policy.**

Each party on assuming office is immediately enmeshed in a system in which all legislation is directed to mend, prop up and maintain its effectiveness.

As a Government it is hopelessly circumscribed by these conditions and to retain the perquisites of office and the shadow of authority it slips into the old routine groove and stays there.



Till these conditions are fundamentally altered and parties break through the meshes that confine them there can be no great change and differing results from changes of Government will be negligible.

## ***Money the Dominant Factor***

The powers of Government are entirely determined by the financial and economic system under which we live and the forms of government that reflect that system.

We have to realise that **economics determines legislation** and that **finance determines economics**.

All party propaganda puts the accent on politics, but our lives are regulated by economic conditions and all legislation attempts to do is to make administrative adjustments to suit these conditions and to fit them into the existing money system.

The outside pressure groups which control members of Parliament recognise clearly the economic factor in all social problems and all their efforts are directed to obtain legislative sanctions to suit their own sectional interests.

If the law does not suit them they ignore the law; if a jurisdiction rules against them they flout the judgment.

In the pursuit of their particular objective they are completely indifferent to the general welfare and are prepared to plunge the country into chaos at any moment to gain their ends.

The unwillingness of Parliament to assume its proper authority over these groups is another reason for the decline in representative government.

## ***False Diagnosis***

The struggle today is between Capitalism and Communism, using these terms in the widest sense. Capitalism is inseparably connected with the Democracies; Communism with Sovietism.

In Australia we live under the Capitalist System of production for profit and both the Labour and Liberal parties apply the mechanism of politics in adjusting the social system to the principles of Capitalism.

The Labour Party, whilst working within the compass of this system, subscribes to the objective of Communism and tries to correct what it conceives to be the faults of Capitalism by Communistic methods. In doing this it seems to have retained the worst features of both and the results, as in Britain, are disquieting and unsatisfactory.

The Liberal Party, which in practice represents Capitalism, has been doing much the same thing and has been responsible for several Socialist experiments. The main difference is that the Liberals try to preserve private enterprise and profits whilst Labour aims to abolish both.

Practically all legislation in Australia is intended to correct most manifest faults in the existing system and make it work.

These faults are undoubtedly the cause of the universal discontent and fear and all legislation seems ineffective in correcting them.

I am going to suggest that failure to correct faults that are plainly visible is entirely due to a widely accepted but totally incorrect diagnosis of the working of the system, a neglect of vital factors in the problem, and the pursuit of remedies based on the false diagnosis I have mentioned.

## *The System Under Which We Live*

Now, let us examine the system under which we live.

The Capitalist system has been in operation for hundreds of years but its operations did not become thoroughly manifested or analysed till the beginning of the industrial era when the factory system of mass production supplanted home and craft industry and commerce became world wide.

At first it was known as Industrial Capitalism because the great captains of industry were the outstanding and visible effects of the system and people believed that it was the control of production by the big industrialists that accounted for the wealth and arrogance of the employer and the poverty and misery of the worker.

Later, when the dominating factors of money and credit could no longer be disguised and the banker came to be recognised as the real power behind the industrialist, the system became known as Finance-Capitalism. Modern Industry works almost entirely under this form.

Later still, when the activities of Government began to encroach on private industry and large public utilities such as gas, electricity, transport, water and irrigation, etc., became governmental or semi-governmental undertakings demanding large financial commitments, we began to experience State Capitalism such as in Hitlerite Germany and, to a lesser extent, in Britain and Australia.

## *International Finance Capitalism*

And now the latest development, secured after many years of planning by the controllers of Money, is International Finance Capitalism, or as many call it—Dollar Imperialism.

This is the culminating structure of Capitalism and puts the whole world that has agreed to the ideas of Bretton Woods into complete subjection to Money.

All nation signatories to the Bretton Woods agreement have substantially forfeited their national sovereignty over finance and trade and, with that, much of their control over national policies and the destinies of their people.

In this progressive development of Capitalism Money has always remained supreme and through it all economic activities are made to serve finance and not human welfare.

Liberal parties either actively or passively agree with this state of affairs and in every crisis support the power and authority of those who rule the world by Money.

By this attitude Liberalism proves itself the greatest recruiting agent for the Communism which it denounces with such energy.

If we look carefully and impartially at the actual results of the working of the Capitalist system of production for profit we must recognise that it has conferred immense benefits on mankind.

Without it the marvellous industrial machine, with its infinite capacity to produce goods and services, could not have been developed.

More than any other factor, it has made civilisation and progress, as we know them, possible.

But it has also created immense evils to offset these benefits.

I do not think it can be doubted for a moment that the main cause of world wars and world depressions, the two great scourges of mankind, is the working of the Capitalist system of production for profit controlled by Finance.

The glaring, if lesser, evils of the system were apparent from the beginning of the industrial era and gave rise to many important movements to reform it. But it still survives and today is facing its greatest challenge.

The world is now divided into two camps—Capitalism and Communism—and it looks as if we are to witness sooner or later a life and death struggle between these opposing ideas and systems for the right to exercise universal dominion.

It will be an unspeakable tragedy for either side to win. There is an infinitely better alternative, as we shall see as we proceed.

## *The Orthodox Theory of Capitalism*

According to orthodox theory the main principles governing Capitalist production are:

- (1) Production for profit.
- (2) Production by private enterprise.
- (3) Free competition.
- (4) Demand regulates supply.
- (5) Production provides its own purchasing power.

From the point of view of the question we are discussing this last assumption is of supreme importance because a belief in its soundness is essential to the continuance of the system.

Its importance is based on the claim that "the act of production automatically creates the income to clear it."



Note this phrase particularly: "The act of production automatically creates the income to clear it."

This means, and it can have no other meaning, that industry in the processes of production always distributes sufficient money to buy back its total product.

It does not actually state that the money so distributed always does this but that it is **sufficient** to do so and that there is no **inherent deficiency** of purchasing power at any time.

This contention, whilst it supports the truth that all incomes as purchasing power are distributed by industry in the course of production and that there is no other source of such income, completely loses sight of the fact that the money whereby Industry functions comes from an entirely different source—namely, the Banking System—and that this money is loaned to Industry as an interest-bearing debt that can be recalled at will by the Banks that create and issue it.

Failure to realise the effect of this has had the most far-reaching consequences on economic thought and action because it has left unrecognised one of the main flaws in the Capitalist system of production.

The theory that Industry is self-financing has been accepted by most orthodox economists and by most unorthodox ones as well from the early classical writers on the subject to its most influential modern supporters such as the late Lord Keynes in England and Professor Alvin Hansen in America.

The influence of this theory, supported as it is by world-famous economists, runs through all propaganda in the democracies.

In Australia it is clearly reflected in the teaching of University professors and bank economists and in the literature and policies of the Labour and Liberal parties.

But, whilst these experts maintain that production automatically provides its own purchasing power, they are forced to admit that the system is functioning very badly.

So they have to find some explanation that will seem to reconcile the theory with the facts.

## ***The Orthodox Theory of Unemployment***

The most visible and disquieting symptom of this faulty functioning in normal times of peace is UNEMPLOYMENT and all it connotes and so the experts have concentrated on this aspect of the economic problem.

The reason is perfectly obvious. There is no argument of such psychological value and popular appeal as employment because wages and salaries are the only title to the means of living for 90% of the working population and, for them, any system that promises constant work must be right.

Moreover, the argument for full employment can only be justified as a cure by its sponsors if they subscribe to the orthodox theory of an automatically-financing economy and assume that the product

of full employment can be completely consumed by the money distributed in making it.

The orthodox and accepted diagnosis and solution of Unemployment is stated very clearly in "Looking Forward: a Post-War Policy for Australian Industry," issued by the Institute of Public Affairs of Victoria.

Though this Institute represents the vested interests of big business and finance and is the power behind the Anti-Labour parties, the views set forth by it in this connection are evidently fully accepted by the Labour Party also, as shown by their official White Paper on Unemployment.

This, of course, is not to be wondered at as the advisers of Labour Governments are orthodox economists who take their ideas from Hobson, Keynes and others of the same school.

I quote from "Looking Forward":—

"The problem in peace is to maintain full employment without the great restrictions on personal freedom and conduct which have necessarily accompanied full employment in war.

"A hopeful sign is that there exists today a remarkable unanimity among the highest authorities on the causes of mass unemployment and the main outlines of the cure. Briefly the diagnosis runs as follows:—

"The various amounts of money received by individual members of the community from wages, salaries, rents, dividends or any other form of income, can be aggregated into a whole which represents the money income of the nation. Each year the community spends portion of this total money-income on the purchase of goods and services which are 'consumed,' such as food, clothing, radio sets, entertainment and travel.

"The remainder of the community's total income or, in other words, that part not spent on the purchase of goods for consumption is 'saved.'

"These savings (for example, bank deposits and insurance payments) contribute to employment when invested either in private industry for the replacement or expansion of plant and buildings used in the production of other goods and services or in government loans used for war or other purposes. Investment of this nature in turn stimulates and maintains spending on consumption goods, as it provides a stream of income to the people employed as a result."

I supplement this quotation and diagnosis from "Looking Forward" with a quotation from the economic enclosure in "Fortune," of December, 1942. "Fortune" is the orthodox voice of finance and big business in America.

"It has long been an axiom of economics that production equals consumption plus investment, investment being assumed to equal savings. Everything produced, in other words, must be either consumed or invested in the nation's plant. From this equation it is evident that to keep production at any given level, **an amount of purchasing power equal to that created by production** (my emphasis)

must be currently spent in either consumption or investment, including paradoxically, that part of the purchasing power that is saved. In other words, an amount equal to current savings must go promptly into investment (broadly defined) and thus be paid out for labour, materials, etc., to create more purchasing power."

The axiom and diagnosis just quoted from "Fortune" are accepted by all orthodox thinkers. Without questioning for the time being their truth or otherwise, let us ask then, if this is how the system works or should work, what has gone wrong with it?

## ***Orthodox Cause and Cure of Unemployment***

The current orthodox answer is that there is a lack of balance between spendings, savings and investment.

And the cure? Simply the establishment of a correct balance. I again quote from "Looking Forward":—

"If, therefore, the volume of investment and spending can be kept at a high level and made regular from year to year, the major cause of unemployment will have been removed."

Simple, is it not? How is this balance to be achieved? Page 68 supplies the answer:—

"The Commonwealth Bank should be in a position to, and should pursue a credit policy which at all times makes possible a level of investment adequate to maintain full employment. Government and budgetary policies should be designed to encourage employment-giving private enterprise, particularly in times of economic stress."

Further:—"The balancing of budgets should be a long term rather than an annual objective." And:—"The public works programme of State instrumentalities, apart from urgent and indispensable national projects, should be used chiefly as a 'Balance Wheel' to private investment with a view to keeping national investment—public and private—at a high and stable level."

Portion of the report of the Economic Round Table of September 5, 6, 7, 1941, is more than interesting in this connection.

"We insist," says the report, "that a primary object of Government in the post-war period should be to stimulate private investment and employment, using public investment as a balance wheel rather than as the chief motive power. We also insist upon the importance of a balanced budget over a long term period."

It is not difficult to appreciate the significance in these identical conclusions and language of finance and big business in America and Australia; they reveal an international propaganda stemming from a common root.

But it is not only vested interests and the anti-Labour Parties that support these views. They are completely endorsed by the Labour Party, which also puts Full Employment in the forefront of its political programme.

In the Labour Government's White Paper on Unemployment we find in Par. 21:—"Public Capital Expenditure has always been im-



portant in the Australian economy and can be controlled by Commonwealth and State Governments. When employment tends to decline, resources can be fully employed by the decision to embark on development works and to improve the collective capital equipment of the country."

## ***Why We Stagger Under National Debt***

What has just been written and quoted shows that the orthodox diagnosis of the working of the existing economic system, together with the orthodox cure for our economic ills, are accepted by both major parties in Australia.

Their fresh presentation through "Unemployment" merely covers up the old arguments; they are not new and the supposed remedy has been tried out for many years.

Reduced to the simplest language it means that private enterprise should produce all goods and services until the inevitable crisis in business looms.

The experts seem to regard these crises almost as a natural law. To mitigate these the Governments must step in and by "financial and budgetary policies" save the situation.

In the picturesque phrase of the "Fortune" economists: "We propose that the Government should underwrite permanent prosperity."

In other words, the Government must carry on with the old, old policy of borrowing from the banks for Public Works and add the total so borrowed to the already staggering total of the National Debt.

To justify this system of finance the experts have now discovered that the National Debt is a blessing which no sensible person need worry about.

Considering that the National Debt of Australia is approaching the three thousand million pounds mark and that the interest and sinking fund is nearly one hundred millions a year, all of which has to be raised by taxation, the average person can be excused if he fails to see the blessings described by the experts.

It seems incredible that so-called experts and advisers should put forth the idea that you can "underwrite prosperity" by plunging deeper and deeper into debt and taxation and it forces one to enquire who it is that really benefits by this monstrous debt system and who controls the experts whose advice is so slavishly followed by all governments.

## ***The Orthodox Diagnosis Examined***

Let us now examine this diagnosis of an automatically-financing system of production and the contention that its faulty working merely consists of a lack of balance between spendings, savings and investment which creates Unemployment.

In doing this we have to keep in mind certain cardinal points—

- (1) We are working under the capitalist system of production for profit.
- (2) Credit is only issued to Industry for Production.
- (3) All incomes as purchasing power arise from the operations of Industry and that there is no other source of income.
- (4) The theory that Industry distributes the means of total payment for its products.

In the first place we must be clear on the essential nature of profit. It is not that the producer must recover in prices from the consumer more than he pays out in the production of his goods? Otherwise how can he possibly make a profit?

As an aid to our examination we will adopt the universal practice of the costing system because the diagnosis is fundamentally a question of cost.

Seeing that business can only make a profit by charging more in prices than it pays out in incomes, costing practice ensures that the sum total of costs incurred, including profits, is embodied in the prices of the goods for sale.

Now costs are of two kinds—**money costs**, those actually paid out in money, and **book costs**, for which no money is distributed by the producer of goods. Both costs are included in prices. **Profit** is a **book cost** and, therefore, no money is distributed by the producer in respect of it.

Remembering these elementary but all-important factors, which the orthodox expert seems to have overlooked, let us look at the matter factually.

Suppose a manufacturer pays out £10,000 in the process of production. The public now has, according to the diagnosis, £10,000 as incomes wherewith to buy the goods produced.

It must be evident that the **lowest limit of prices** must be also £10,000 if the manufacturer is to recover all the money costs he has actually paid out.

But, as he is not a philanthropist, but a business man whose only reason for producing at all is profit, his **prices must of necessity be more than £10,000**; they can well be £12,000.

The £2,000 added for profit is a book cost, a percentage addition only, but the manufacturer has not paid out this amount. The buying community therefore has only £10,000 to liquidate £12,000 of prices. They cannot do it; it is mathematically impossible.

Taking this one item of profit alone it shows that the price system is not "self-liquidating" and destroys the assumption that the "act of production automatically creates the income to clear it."

This is true even if, in the example given, the whole of the £10,000 were available as purchasing power.

But it is not all available because, according to the diagnosis, savings must also come out of the £10,000 of incomes.

Suppose, for argument's sake, that £1,000 is saved for investment, then there is only £9,000 to liquidate £12,000 of prices, because the money so invested is lost as purchasing power.

The diagnosis denies this and assumes that the £1,000 when invested comes back into the community and is not lost as purchasing power.

Let us examine this assumption also. If £1,000 is saved it means that goods priced at £1,000 must remain unsold.

The £1,000 invested produces, say £1,000 of new goods and the £1,000 is back again in the hands of the buying public. The orthodox argument is that no purchasing power is lost. This is a fallacy.

The £1,000, now back in the community, can buy either the first lot of goods left unsold or the new goods it put on the market but it cannot buy both.

The purchasing power has been restored to £10,000 but the prices have been increased to £13,000 or more, allowing for the profit on the new goods; the disparity has been further increased and the theory of a "self-liquidating" price system becomes less tenable than before.

## *Industry Is Not Self Liquidating*

The idea that savings become purchasing power through investment is extraordinary in the light of the orthodox contention that capital arises out of savings.

If invested savings become capital surely they must be lost as purchasing power—they cannot perform both functions.

What really happens is that SAVINGS, WHEN INVESTED, PRODUCE A FRESH SET OF COSTS WITHOUT PRODUCING ANY NEW PURCHASING POWER.

They simply increase the disparity between purchasing power and prices and upset further the economic balance they are supposed to correct.

It should be evident from this factual examination of orthodox theory that it is mathematically impossible for any single industry, working for profit, to automatically finance itself.

And if no single industry can do this it follows that the sum total of all industries, which must conform to the same costing practice, cannot do it.

There must be, between the money paid out and the prices charged, a difference equal to the profit claimed.

This is true if all the money paid out is used as purchasing power. If it is not all so used and a portion saved and invested the difference, as I have shown, is further increased.

THE CONTENTION THAT THE PRICE SYSTEM IS SELF-LIQUIDATING AND THE MONEY DISTRIBUTED BY INDUSTRY IS SUFFICIENT TO BUY BACK THE TOTAL PRODUCT OF INDUSTRY IS FALLACIOUS, AND THE CONTENTION THAT IT CAN DO THIS AND ALSO PROVIDE SAVINGS FOR CAPITAL INVESTMENT IS DOUBLY FALLACIOUS.



Another amazing feature of this orthodox diagnosis and solution is its obvious contradictions. The diagnosis assumes that industry distributes sufficient money both for spendings and savings.

Then, in its solution, it admits that it cannot do this and that in periods of crisis (the downward trend of the trade cycle) the government must come to the aid of industry and by public borrowings and spendings supplement the amount of purchasing power distributed by industry.

The suggested remedy proves the falsity of the diagnosis and reduces the supporting arguments to absurdity.

The orthodox diagnosis, in spite of its wide acceptance, is a major economic fallacy and all remedies based upon it are doomed to failure.

## *Why the Orthodox Diagnosis is Accepted*

Why then, we may ask, is this diagnosis so widely accepted?

Undoubtedly the reason for the average man's inability to see the falsity in it is the fact that the operations of business and the general practice apparently confirm it.

He says, in effect, "If what you say is true, how do you account for the fact that most businesses today do make profits and nearly everyone makes savings that are invested?"

Of course, no one can deny that profits are made and money saved and invested. How is it possible in the light of our previous argument?

The answer is quite simple. The money that makes all profits and savings possible comes from another source. That source is **DEBT**.

This Debt Money, in the form of financial credit, is created and issued by the Banking System as overdrafts to producers for fresh cycles of production, as export credits, as loans to finance corporations, governments and other bodies and is written up as an interest-bearing debt to the banks and against the community.

Proof of this lies in the universal use of cash orders, hire-purchase, time-payment, bills, loans of all kinds, particularly to governments and public bodies. We have to mortgage our future for years ahead to live in the present.

Governments cannot exist without recourse to debt finance and private industry can only function by the same means.

The price the world is paying for thus using debt money is reflected in the continual industrial unrest everywhere, in the fantastic increase of the cost of living and in the continually decreasing value of any unit of money.

The tragic plight of Britain, for example, is due to her colossal debts and consequent taxation rather than to any other cause.

The truth, so strenuously denied by orthodox economists, that there is always an inherent gap between purchasing power and prices

and that this gap is bridged, and can only be bridged under the present system, by loans from the banks, reaches right down to the core of the economic problem and exposes the fundamental flaw in the capitalist system of production for profit.

The Liberal Party, wedded to orthodoxy and the working of the existing money system, ignores the part played by finance in our economy, and by its silence in these matters nullifies the very philosophy on which it justifies its existence.

The Labour Party, whilst not ignoring the part played by finance, does not understand it and believes in changing the ownership and administration of Banks by Nationalising them without altering their policy.

Failure on the part of the public to recognise the fundamental flaw in our economy is due mainly to almost complete ignorance of the creation and use of Bank Credit and the working of the money system.

Even those who benefit most by the system are only dimly aware of how it functions and, till it is pointed out to them, of the fact that the total profits of the community can only be realised by debt. Perhaps a short explanation will clarify the matter.

## *How the Money System Works*

This is how the money system works in relation to industry.

Practically all current production is financed by loans and overdrafts from the banking system. Fully 90% of businesses are carried on by advances from the banks and these advances are issued only for production.

Those few large businesses, mostly monopolies or near-monopolies, that are capable of financing their undertakings from their own monetary resources gain their profits and reserves from the credits advanced to other businesses which distribute them to the buying public in the course of their operations.

In any case, they have to recover from the public in prices the interest on the money so used as well as their profit on output.

When we consider the total number of businesses functioning on bank overdrafts we can visualise that there is in the community a vast reservoir of credit (or debt) fed in this way; it amounts to many millions of pounds.

In addition we find this reservoir continually replenished by loans to Governments and so the volume of credit available as money is enormous.

**It is from this reservoir of credit, or debt, that all expenses of industry, including profits, must be drawn; there is no other source. Industry manufactures goods. Banks manufacture financial credit, which functions as money.**

In effect it means that we cannot possibly buy the full product or realise the profit on any given cycle of production without the Credit created by the Banks for an entirely new cycle of production;

we must produce new goods in order to sell what are already produced.

When the Banks restrict or refuse credits for the new production, goods remain unsold, unemployment begins and profits vanish. Depression has arrived.

Part of the reservoir of credit already mentioned is returned to the Banking system through the conduit or agency of prices and is cancelled out of existence.

Part of it is retained in the form of Savings and Reserves and without this reservoir of credit no savings or reserves are possible.

But a large proportion of this credit is not returned to the Banking System at all. It is represented by loans to Governments and is funded in the National Debt on which perpetual interest has to be paid.

This interest charge is one of the main reasons of the heavy taxation from which we all suffer.

The Liberal Party complains, justly, against this taxation, but I am not aware that they ever tell us the real cause of it or how they are going to reduce or abolish it; they ascribe it to the administrative extravagance of the Labour Party as though that explained everything.

No doubt a good case can be made out about this extravagance, but it is not a monopoly of any party.

## *The Cause of Booms and Slumps*

The difference between boom and slump, prosperity and depression, employment and unemployment, depends entirely on the action of the banks in issuing or restricting credit.

During the war, and since, the reservoir has been kept full to overflowing through the enormous credits to Governments and producers for war and reconstruction purposes.

Most of these credits were used for the production of capital and non-durable goods and very little for consumer goods.

The money thus reticulated came into the hands of the public as incomes and explains the large savings and profits made during these years.

The shortage of consumable goods and the vast amount of money in circulation due to this policy both at home and abroad account entirely for the rise in prices of commodities and the artificial prosperity that are the dominant features of the present Australian economy.

It must be realised, and cannot be stressed too often, that this artificial prosperity is due to using Debt for Money, and cannot last. The reckoning will have to come, the joy-ride is nearly over.

This method of carrying on—and it is the only possible method under the existing set-up—is reflected in the enormous and rapidly increasing public and private debts, crippling taxation, soaring costs of living and all the problems that full employment is expected to solve, but which it is incapable of solving.



## ***Full Employment is No Solution***

Full employment cannot possibly solve these conditions.

It is made possible in total war by taking the majority of workers out of ordinary production, placing many of them in munition making, many more in Government jobs, putting the balance into uniform, paying them and financing the whole operation by Government borrowing and spending.

An increase of more than £1,400 million in the National Debt was the price Australia paid for full employment during the war.

This increase in debt explains the increased profits and savings during that period.

Whether full employment is either possible in an age of machine power and applied science, or desirable in an age of potential plenty that calls for leisure, we need not discuss, but **FULL EMPLOYMENT DOES NOT SOLVE THE PROBLEM.**

Its advocacy is merely a smoke-screen to hide the real nature of the economic problem and to keep the minds of men away from the workings of the financial system.

To those who have grasped the true nature of the problem it is incredible that so-called economic experts should write volumes to explain results as a cause and to put forth the pitiful idea that a balance, regulated by DEBT, between spendings, savings and investment, is a real and effective cure for the desperate ills of the world.

The failure of Governments to meet adequately the problems that confront them in Australia and elsewhere is due more than anything else to the false conception of the working of the Capitalist system of production for profit under which we live and all democratic Governments operate.

As the Liberal and Labour Parties are both victims of this false conception, it is not to be wondered at that their devotion to a system of debt and taxation and their persistence in trying to make it work result in the social and industrial unrest that have been the outstanding features of our time.

It also helps to explain the diminishing status of Parliaments and the decline of faith in their capacity to solve the problems of the world.

## ***Who Benefits by the Present System ?***

I have already mentioned the inability of the average man to see the falsity of the orthodox diagnosis and remedy. This poses another question—who benefits by the maintenance of this falsity?

We have shown that profits are made possible only by debt—this is, by credits created and issued as an interest bearing debt by the banks. These institutions, having a **MONOPOLY OF CREDIT**, absolutely control the economic system by their over-riding claims on it and are, therefore, the main beneficiaries both in power and profit.

**They control, through finance, the operations of industry, the powers of Government and the destiny of Nations.**

**They colour all propaganda for their own ends without appearing in the picture. They subsidise schools of economics and most of the influential economists are in their pay as "advisers."**

As a matter of fact, these economists, whilst nominally advisers to the banks, are really advised by the Banks.

Whatever the earlier economists may have been it is notorious that, in recent years, all economists whose views are permitted wide expression are **bank** economists.

The late Lord Keynes, the most influential of modern experts, was a Director of the Bank of England, so was the late Lord Stamp.

Professor Alvin Hansen, who is widely known in U.S.A. for his orthodox opinions, is adviser to Marriner Eccles and the Reserve Banks in that country.

Now we have the appointment of Dr. Coombs to the control of the Commonwealth Bank of Australia.

**Practically every well-known economist in this country is a Banker's man. In all their writings and schemes for post-war reconstruction they never challenge the policies of the Monopoly of Credit; they are all protagonists of the Debt System and of international control of all human activities by finance.**

This accounts for the "remarkable unanimity among the highest authorities" that I previously quoted from "Looking Forward."

## ***The Crime of the Debt System***

Our examination of the system under which we live must convince us that the main cause of our economic and social problems lies in the financial mechanism of the Capitalist method of production for profit which causes in the first place an inevitable disparity between prices and incomes as purchasing power and, secondly, the efforts made to bridge this disparity and make profits available by Debt.

We have been depending on this method for scores of years till today, after the enormous increase in debt due to fighting two world wars and repairing their damage, the debt question with its consequent taxation overshadows all others.

If we look around we find that almost every individual is enmeshed in debt, almost every business works on overdraft, almost every farm is mortgaged.

The returned soldier pledges his future for twenty-five years to buy a home; his wife furnishes it on hire-purchase; she clothes her children on cash orders.

A Shire Council cannot build a road or a Water Board lay a main without debt. The Railways have paid more in interest than the capital cost of building and equipping them and have paid nothing off the principal.

The tramways cannot provide new cars or give employees decent conditions for lack of money due to interest charges from the past spendings, and education is starved everywhere for the same reason.

Nearly every hospital and church carries on by the grace of the Credit Monopoly and no Government can exist without borrowing.

All this Debt is provided by the Banking System which has a Monopoly of the right to issue financial credit.

By this monopolistic control of credit, which transacts nearly 99% of the total business of the community, the banks have a dominating interest in every industry and Government and over all individuals.

They hold the greatest power ever vested in any institution in the history of the world.

The right and power to issue credit in this way rightly belongs to Government and should never be exercised by private institutions without responsibility.

As Abraham Lincoln said—"The right to issue all forms of credit and currency is the supreme prerogative of Government and its greatest creative opportunity."

Till this right is re-established in some authority representing the people as a whole and money becomes a medium of exchange only and not a commodity bearing interest, we cannot hope to see any solution of our problems.

Communism finds its most fertile breeding ground in the conditions arising from the maintenance of the private control of money.

The fundamental weakness of the Liberal Party in Australia is that it steadily refuses to tackle the money question and on every occasion acts as the supporter and mouthpiece of the vested interests of finance.

This does not condemn the Party's opposition to the Nationalisation of the private banks.

These banks, as far as service and administration are concerned, are almost 100% perfect and it would be madness to hand them over to centralised and bureaucratic control. **And that is all Labour intends to do.**

The Policy, which is the all essential thing, is not to be changed, whereas that is the only thing that **needs** changing.

Unfortunately, the Liberal Party, in its opposition, supports not only the administration of the private banks but their policy in controlling all activities by their control of credit.

By its attitude it countenances the debt and taxation system and thus destroys any argument it may put forth for a reduction of taxation. One is the inevitable result of the other.

## ***Some Factual Results of Debt***

Let us look at some factual results of the Debt and Taxation System.

The National Debt of Australia is nearly £3,000,000,000 and is constantly increasing.



We are an undeveloped country of nearly 3,000,000 square miles and a population of under 8,000,000 people.

Every party realises that there is an urgent need for more roads, railways, harbours, bridges, water conservation, irrigation, light and power, better hospitals, schools, cities and many other things. Above all we need a vast flow of immigration.

Is it intended to borrow the many millions to carry out this programme? Apparently no party has any other ideas on the subject.

Are all these crying needs to remain crying needs to be spoken of only as pious aspirations at election time? Because if all these things are to be done under present methods the interest bill alone will increase and not decrease taxation.

Even now the interest bill and sinking fund on the National Debt is in the region of £100,000,000 a year, or £2,000,000 a week.

It takes the wages of 250,000 men at £8 per week to meet these charges. Is any party prepared to launch a programme that will double this?

Or shall we be content to let Australia remain undeveloped, underpopulated, defenceless, and at the mercy of the teeming millions of Asia encouraged by the Communist fifth column in our midst?

## ***Taxation is Robbery***

Take the total taxation of this country. It is more than £490 million a year, more than £1 a week for every person in Australia.

To put it more graphically, it takes the wages of more than ONE MILLION MEN at £8 a week to provide these taxes.

Think what it would mean to the individual and to the Australian economy if all this taxation were eliminated. **Because it can be.**

Taxation is robbery. Under a sane system of finance taxation for revenue purposes would be unnecessary. Revolutionary to the orthodox, but quite true and quite simple.

Look at the effect of taxation on the private individual.

The worker, earning more than award wages for overtime, finds that taxation robs him of most of the increase and so will not make the extra effort.

The producer of goods, anxious to increase output, finds his extra profit confiscated by the tax-gatherer and his incentive destroyed.

The farmer, encouraged by the government to grow more for export and so increase prosperity, finds that the self-same government takes most of the result of his labours and so decides to grow less in the future.

The writer who has taken years to master the art of novel writing gets £2,000 for a prize story and finds that the Taxation Department takes half of it, so he decides to take his talent to another country.

Wherever one turns the same sort of thing crops up; taxation is rapidly destroying all the factors that make a people free and a country prosperous.

The results of taxation are seen and felt by all; everyone complains and rightly so. But what are the people and their political representatives doing about the cause of it?

Now let us look briefly at the chief items of this huge taxation bill. They are—

- (1) Interest on the National Debt;
- (2) Social Services;
- (3) Administrative costs of Government.

With regard to the latter it has been stated that Governmental and semi-Governmental employees now number 574,000 out of a total of less than 2,400,000 wage earners, and is still increasing.

Practically the whole of taxation to meet these expenses is due to the existing system of financing governments by borrowing. The interest on the National Debt is *entirely due to it*.

The cost of Social Services can be traced to the financing of Industry by debt which only permits the majority to live from day to day and prevents any reserves for sickness and old age.

The enormous number on the Government payroll is chiefly due to bloated taxation, social service and other administrations; to implementing a fallacious policy of full employment and to the futile efforts of government planners to make an impossible system work.

No matter what party gets into office it will inherit this system and its commitments. What is it going to do with the legacy?

## **PART 2**

# **The Industrial Revolution**

### *Orthodoxy and Reform Movements*

The change from the methods of craft and home industry to power and factory production which marked the beginning of the Industrial Era was a social and economic revolution.

Not only did it change long established practices in industry, but it revolutionised economic theory and spelled the doom of Mercantilism as a national policy.

Trade and Commerce took on new aspects and the teachings of Adam Smith exerted a profound influence.

Industrial cities, clustered around coal fields and ports, sprang into existence to house the new workers in centralised factories. These were badly built, crowded in space, and giving few amenities to the occupants.

The impetus to business under the new conditions was tremendous and there was a mad desire on the part of the industrialist to gain as much wealth as possible without any regard for the worker who made his wealth possible.

The result of this system of Capitalist production in England was marked and spectacular and gave her that control of trade and world markets that made her the first power in the world for 200 years.

This astonishing transformation was due to two main causes. First—the harnessing of solar energy through the steam engine and the adaptation of machines and science to production and transport.

Second—the use and expansion of Bank Credit. This magical method of transacting business by book-entries made capitalist production for home and export markets possible.

The visible benefits of financial credit in an expanding economy and the almost total ignorance of how this credit was created and used obscured the price that had to be ultimately paid in debt, interest, taxation and war for this form of money.

The wealth accruing to England through the working of the Capitalist system in its earlier period blinded politicians and economists to all other considerations.

On the one hand, Industry advanced with giant strides, immense volumes of goods were produced, population increased, cities grew, transport was re-organised, export trade spread over the world and manufacturers made large fortunes.

On the other hand, hours of labour, housing, factory and mining conditions and the exploitation of female and child labour were shocking and a disgrace to civilisation.

These conditions have been described in scores of books and we can visualise them from such poems as Mrs. Browning's "Cry of the Children" and Hood's "Song of the Shirt."

The wealth of the manufacturers and the poverty and misery of the workers made such a contrast that groups of philanthropists demanded drastic changes.

Out of these demands came the laws ameliorating hours, employment conditions and child labour. Out of them also grew the trades union movement to protect the worker.

These reforms were humanitarian only, born of sympathy for suffering and injustice. They made no attempt to alter the system; they dealt with the outstanding effects and the leaders had no conception of the vital relationship between credit, profits and living conditions.

Reforms have followed this pattern for a hundred years but they have made no fundamental impact on Capitalism.

The Chartists attacked social conditions from another angle. Their views were largely influenced by the ideas of liberty, equality and fraternity handed down from the French Revolution and they pinned their faith to political action to change the balance of economic conditions in their favour.

Like many movements since, they put their main accent on politics and did not realise clearly enough that their lives were really dominated by economic and monetary factors.

All their passionate desire for freedom and the betterment of mankind was not linked with a proper understanding of the working of the system they condemned and so they missed the vital cause of the evils they were fighting.

## *Socialism and Communism*

The Socialist and Communist Movements have made the fiercest and most persistent attacks on the Capitalist system.

We can treat these two movements as one in spite of grave differences in method. They stem from a common philosophy which



assumes that the whole structure of social life and the progress of civilisation are entirely conditioned by the economic basis of society.

They also subscribe to a common objective. The main difference between them is that Socialism hopes to reach the objective by constitutional changes whilst Communism favours revolution by force.

Marx, the great exponent of Communism, was not concerned with any humanitarian approach to the evils of Capitalism; he looked at it from his own viewpoint of historic and dialectic materialism.

To him, Capitalism was a phase, and perhaps a necessary phase, of the class struggle, arising out of economic developments that were outliving or had outlived their time and purpose and which should be abolished, by force if necessary, but abolished anyway.

Marx made an elaborate examination of Capitalism and came to the conclusion that its faults and evils lay in private enterprise working for profits which arose from the exploitation of the worker.

He assumed, just as most orthodox economists did, that industry automatically financed itself by the act of production and that enough money was always distributed to buy the product.

What was wrong, according to Marx, was the allocation of the money so distributed. The labourer, who produced all the wealth got far too little and the employer to whom the labourer was forced to sell his labour power, got far too much.

In short, the poor were poor because the rich were rich.

His solution was to abolish private enterprise, make the State the sole owner and employer and produce for use and not for profit.

Democracy, which Marx considered the political tool of Capitalism, was to be swept away and the dictatorship of the proletariat established.

The State would then be supreme over the individual till such time as the new regime was firmly established. Then, its mission being ended, it would gradually wither away.

The restricted ideas of Marx on the factors of wealth production, plus his limited knowledge of business costing practice and the vital part played by bank credit in the total economy, prevented him from seeing the problem steadily and seeing it whole.

His theory of Surplus Value, which is the basis of his ideas, is only tenable if the orthodox theory—"that the act of production automatically creates the income to clear it" is correct. But, as I have shown, it is not correct; it is a fallacy.

What Marx failed to see was that "surplus value" must be represented by surplus goods and that surplus goods must be sold before the producer can realise the value of them.

Otherwise they are a liability and not an asset. The history of the depression proved this a thousand times.

Marx assumed that surplus goods, representing surplus value, produced by unpaid labour and, therefore, with no purchasing power to equate with them, became profit to the producer. This is a specious fallacy, but one steadfastly maintained by his followers.

Marx failed also to see that the main evils of Capitalism were not due to private enterprise working for profit, but to the fact that

Industry can only function by continuous injections of debt from the banking system.

Industry has now become, in common with the vast army of consumers, a victim of the financial monopoly. **The Marx solution was to kill the victim.**

To justify his conclusions he had to accept the idea of a self-liquidating economy; not to have done so would have invalidated his whole argument.

Though the philosophy of Marx is dangerous and reactionary and though both his teachings and remedy are wrong, his ideas are accepted by millions.

This is due in a great measure to the self-evident evils of the system he condemned, coupled with the almost complete ignorance of the cause of them, and to the subtle and able propaganda appeal to class consciousness.

Hate is a stimulating force and it is to the emotional appeal to the passions of the masses and not the philosophy or arguments of Marx that Communism owes its strength. It provides the urge to drive men unreasoningly forward to the destruction of their supposed enemy.

## ***The Co-operative Movement***

The next Reform Movement we shall consider is the Co-operative Movement. This movement, started in a small way to protect the consumer, has grown to large dimensions.

It accepted the idea that profit from private industry, particularly at the retail end, was the cause of many hardships. But it did not apply the Marxist remedy.

Having no real knowledge of the working of the Capitalist system it looked at the huge profits made by both manufacturer and retailer without enquiring from what source profits were made available. Its solution was to distribute these profits amongst the co-operating consumers.

Though co-operation is an excellent idea, the organised movement of Co-operation is still a portion of the Capitalist system with private enterprise extended to mutual enterprise.

In its operations it approximates to many of the features and practices of Capitalism and does not hesitate to establish monopolies and crush opposition in the same way.

It depends for its success on the purchasing power of its members who obtain their incomes directly or indirectly from money released through production by the banks.

The tendency of the Co-operative Movement is to Monopoly. If it could be kept competitive under a sane system of finance it would be a most valuable social development but, carried to its logical completion, it must end in State Capitalism with all competition eliminated.

## ***Henry George and the Single Tax***

In spite of the growth of the Co-operative Movement and the spread of Socialist and Communist ideas, Capitalism became more powerful.

Among the reformers who refused to subscribe to the ideas of Marx was Henry George, an American economist, who set forth his ideas in a book with the significant title of "Progress and Poverty."

Henry George realised very keenly that Progress and Poverty going hand in hand was a tragic anomaly and tried to find the root cause of it.

His investigations led him to the conclusion that land monopoly or the private ownership of land denied proper access to the means of production and was the main reason for the social and economic problems of his day.

He argued that every increase in production and real wealth led only to increased land values and rents and the profits which would have eliminated poverty were absorbed in this way.

He contended that the increase in land values was entirely due to the combined efforts of the community but that the landlord reaped all the benefit of this increment of association. This prevented proper access to the means of production and therefore to the prosperity which should be shared by all.

This argument carried considerable weight in George's day but has now lost its persuasive force because the ownership of land has now become rather a liability than an asset and the landlord is being taxed out of existence.

Henry George's solution was to restore all increment of land values to the Government and thus obtain by a Single Tax from the users of land all the revenues of the State.

As a corollary to this all tariffs would be abolished in favour of world free trade.

These ideas, which once received widespread academic support, have never been generally accepted, and tariffs have been more and more applied by many nations since the time of Henry George.

The writings of this eloquent and sincere reformer show that he accepted the orthodox theory that access to the means of production would result in all the necessary goods and services to abolish poverty and that the act of producing them would also generate the means to pay for them.

Having accepted this false theory he naturally failed to see that what was needed was not so much access to land as the means of production as access to purchasing power as the means of distribution.

Whilst we must pay tribute to the great earnestness and sincerity of Henry George and his followers we have to realise that his examination is faulty and his solution untenable. Once more a great idealistic reform has failed through accepting the fallacious diagnosis of a self-liquidating economy.

## ***Post-war Trends***

The state of world trade, the process of reconstruction in Europe, with all its political and ideological complications; the chaos in China; the awakening of Asia, with its problems of colour, and the dominating positions of Russia and the United States in international affairs, are colouring and determining all post-war schemes and policies.



The last world war practically wrecked the economies of Europe and left its peoples bereft of power and morale. They had to exhaust their resources at home and pledge their assets abroad to wage war in the hope of survival.

The United States, with its vast natural, industrial and financial resources intact, not only unharmed but increased by enemy action, emerged from the conflict the richest and most powerful nation in the world. We, in Australia, are chiefly concerned at the moment with this development and its influence.

In spite of the vital part played by the United States in ultimate victory (and no one can be more appreciative of this than Australians), her participation in the war was primarily to protect herself and secondarily to establish her economic and financial control over the other nations engaged in it.

She succeeded in her first objective and is now actively engaged in accomplishing the second.

This control by the United States did not arise automatically, as might be imagined, from the march of events, though these were powerful contributing factors, but was the result of long range planning by those powerful groups that direct her policy.

The direction and control of this planning were clearly indicated in the first world war by Walter Hines Page, the U.S. ambassador to Britain at that time, who openly boasted that financial world control had passed from Britain to America as the result of the latter's aid in men, materials and money to Europe.

From being a debtor nation America had become the world's largest creditor one and, therefore, the nation that paid the piper was entitled to call the tune.

## *How USA Waxed Fat*

During the period between the two world wars the international financiers, with their headquarters in New York, made every effort to consolidate their position.

The lavish aid to Germany, the Dawes plan, the Bank of International Settlements and the widespread and inspired propaganda for Union of the Democracies following the publication of Clarence K. Streit's book on the subject, were all part and parcel of the plan to make the United States supreme in world affairs. The acquiring and hoarding of most of the world's gold in America was another part of the plan.

It must be remembered that in both world wars the United States took no active part till all the allies were, in a measure, exhausted, and that she stood, as it were, on the sidelines, in conformity with a so-called policy of isolation.

But, during these periods, whilst the nations were fighting for their existence, the United States supplied them with billions of pounds worth of war materials at exorbitant prices.

The credits to supply this flow of material were supplied by the Federal Reserve Banks of America, backed by the national credit of the Government, and put Europe into financial bondage to America.

The colossal amounts of these credits to finance production of

materials for war both at home and abroad are indicated by figures given in the McGraw-Hill Digest for July, 1948.

It states that in the past two years the United States Banks have added 12 billion dollars to their loans and that now their total loans and investments in the United States are more than 116 billion dollars.

Of this amount over 64 billions, or 55 per cent. of their total investments, were in Government bonds.

These are now called by the banks "riskless assets" because the account never goes "bad" and the government can always recover the interest for the banks by taxation.

The result of this prodigal creation of bank credit is the so-called "prosperity" of the United States and the alarmingly high cost of living in that country.

This investment of the banks in Government bonds is closely paralleled in Britain and Australia and for the same reason.

## ***America Must Export or Slump***

Previous to World War 1 the United States was not a large exporting country in terms of her total trade, but this aspect has been completely altered in the past few years.

In an official publication by the United States Government on the Bretton Woods proposals it states that in 1938 the total exports were 3 billion dollars, but at the end of the last war they were 9 billion dollars.

Latest figures show that United States investments, loans and credits abroad were £A6½ billion in 1946 and over £A9 billion in 1947. Government loans and credits accounted for nearly £A2,189,000,000 of the increase in 1947.

These enormous credits are spent in America to keep her industrial plants fully occupied and they are all DEBT.

To quote again from the official U.S. publication on Bretton Woods—"A restricted volume of foreign trade would mean, as it did in the 1930's, that large surpluses of many goods have to be dumped on the home market. The consequence would be depressed prices, foreclosures and unemployment.

"It is generally agreed that an increasingly large volume of foreign investment by the United States is essential to our own economic security.

"Without it we cannot expect to build up the volume of exports required to help absorb the output of our greatly expanded industrial plant."

This official statement reveals most clearly the foreign activities of the United States and their conformity to set plans.

It also underlines unconsciously, the fallacy of the orthodox theory of a self-liquidating capitalist economy and shows conclusively that the disparity between incomes and prices can only be met by Debt—in this case by export credits.

The policy advocated in the above quotations has been and is being followed and the economic dislocation of the war-stricken countries give her the opportunities she needs.

These exports are a one-way traffic; America has received practically no goods in return from her war allies. The effects of this war policy are far-reaching and the end is not yet.

It has maintained almost full employment at home and a spectacular prosperity—in violent contrast to the conditions of the peoples to whom she is exporting.

It has prevented the return to those conditions that marked the depression of 1929-32 when millions of Americans were out of work and Roosevelt formulated his New Deal.

It has put all European countries into her debt and given her world control of finance and economic power.

## *America's World Domination*

Taking advantage of European conditions and with the specious plea that world recovery must be directed by centrally controlled finance, the United States has organised the World Bank and Monetary Fund and made the loaning of huge credits—that is, the supplying of goods from her surplus production—contingent on the nations signing the Bretton Woods Agreement.

The recovery loan to Britain was granted practically on duress of this kind. It is now widely recognised that this U.S.A. policy was aimed to capture and control export markets and, particularly, to make the recovery of Britain, her chief competitor, more difficult by destroying Empire preference.

In fact, every effort made, including the much publicised Marshall Aid Plan, reveals the determination of the United States to achieve supreme economic power.

It is beside the point that the United States will not attempt to recover from the rehabilitated countries much of the credits given for goods supplied.

A restored Europe is absolutely essential to her as a capitalist country, both from the point of view of economic expansion and political security.

It is of supreme importance to her that her people are fully employed and so halt the Communism that would be fostered by unemployment.

It is of little concern to the financial brain trust of America that the enormous credits created by the banks to make this policy effective will be eventually added to the already huge National Debt of that country and that its citizens will foot the bill in heavy taxation and high costs of living.

Their "riskless assets" are apparently secure; they are at present in the saddle and they control the Government.

To those who can look at the American situation from a detached viewpoint it seems impossible that this method of carrying on international trade can last indefinitely.

If and when Europe and the other nations are restored to pre-war production, the only way these credits can be repaid is by their exporting goods to the United States.

Up to the present the United States has shown no indication that she is willing to accept payment in this way because their entry



would create that internal unemployment she so much dreads and so precipitate the greatest depression in her history.

## *The Choice Before USA*

As a matter of cold reasoning most of these export credits never will or can be repaid and the United States will be forced to write them off as a bad debt to be carried in perpetuity by her own citizens.

Trade will then have to be carried on by an equal exchange of goods or all countries, including her own, will be forced into a closed economy of national sufficiency and the ideas of nationalism, so forcibly opposed by the international financiers of the United States, will again become prominent in world affairs.

The United States, by the stress of circumstances, will then be compelled to adopt some financial system whereby the volume of goods she is so capable of producing can be **absorbed by her own people** through a scientific equation of purchasing power and prices, and all exports can be paid for by an equivalent value of imports.

The idea of American economists that the Government should "underwrite permanent prosperity" by debt is fantastic and falsifies all the experiences of capitalist production for profit.

The policy of the United States, of persisted in, means the establishment of a Totalitarian tyranny by financial and economic compulsion and is just as fantastic and unacceptable as a Totalitarian tyranny by Communistic regimentation.

The awakened conscience of mankind will not tolerate for long any form of tyranny and the policies of both Russia and the United States are even now destroying the confidence and alienating the sympathies of all freedom-loving peoples. Sooner or later they will demand a wiser and saner alternative to either.

## **PART 3**

# **The Social Credit Case**

The theory that Industry automatically finances itself is as old as Capitalism.

It is a theory that has been accepted almost universally without proper examination and was never seriously challenged till C. H. Douglas analysed it from the standpoint of a mathematician and engineer.

Before he published his analysis he tested it thoroughly by examining more than one hundred large businesses to see if the actual facts confirmed his theory. Every one did so.

The result of his analysis is as follows:—"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."

This analysis, which means simply that total incomes are always less than total prices and that the difference has to be made up by bank credit—which is DEBT—completely destroys the orthodox theory of an automatically financed system of Industry.

It is an analysis that has been fiercely disputed, distorted and denied, **but it has never been disproved.**

It is logically and mathematically correct because it harmonises with the facts.

It can be proved from the point of interest charges alone. It can be proved by savings alone. It can be proved, as I have shown, from profit charges alone.

Blind acceptance of the orthodox analysis and inability to accept that of Douglas have vitally affected all movements to reform Capitalism and are the main causes of the failure of all of them.

On the face of it, failure to accept the Douglas analysis by orthodox economists seems incredible. But in the light of past judgments by experts not so incredible.

For many hundreds of years natural philosophers believed in the Aristotelian theory of the relative velocity of falling bodies till disproved by the practical experiments of Galileo.

They believed that the sun rose in the east, that the earth was flat and was the centre of the universe.

Experts in all ages have supported with enthusiasm hundreds of theories since proved fallacious.

The history of economic theory abounds in these mistaken beliefs and it is inevitable that the orthodox diagnosis of the working of the Capitalist system of production for profit will also pass into the discard; it cannot stand up for ever against the facts.

## ***The Flaw That Causes Depressions***

The flaw in the economic-financial system is undoubtedly the disparity between purchasing power and prices which has to be bridged by debt, and to it can be traced most of local and world ills.

Shortly after the first world war Douglas wrote as follows:—"There is no single cause operating in the world today which is of such importance and so fraught with the possibility of world disaster as is the disparity between purchasing power and prices."

Let us see if we can trace the result of this disparity.

Goods with no purchasing power to equate with their prices pile up unsold in factories, warehouses and shops, because even debt will not carry all of them off the market.

When they pile up to such a height, as immediately before the great depression, that the crest of the trade cycle has been reached, selling them becomes a problem and the economic position starts to become dangerous; the period of boom through abundant credit for production has ended.

The banks, alive to the folly, from their point of view, of financing further production when a glut already exists, curtail and then stop issuing fresh credit.

Production at once slows down and men are put out of work. With unemployment comes a further loss of purchasing power

through loss of wages. Less goods are sold and more men are put off. Prices fall to below cost as the banks proceed to call in overdrafts and bankruptcies become common.

The depression is now well under way and the Government is forced to provide for the unemployed and the unemployed.

The banks then find an outlet for their credit in lending to the Government for relief work—and the dole has arrived.

As the home market has been now drastically reduced, there begins a struggle to find markets overseas for the goods that cannot be sold at home.

All countries desperately try to do this because they are all in the same plight from the same cause. Nations strive for new colonies and "new places in the sun," new "Co-prosperity spheres."

All this leads to international friction and inevitably to WAR.

When war comes the credits refused to Industry in peace are released in a flood and the false prosperity of war succeeds the artificial poverty of peace.

As it has been so well said—"War is economic peace and Peace is economic war."

This is the world disaster visualised by Douglas. The great depression and the second world war proved conclusively that he was right and that the orthodox experts were wrong.

As Will Dyson wrote—"The facts seemed to be in the pay of Major Douglas."

In spite of the experiences of the immediate past, the policies now being pursued in Australia and other democracies are almost identical with those that resulted in the past and present social and economic chaos.

If they are persisted in and the lessons of the past blindly or deliberately ignored the results must be disastrous.

"Those whom the gods wish to destroy they first make mad."

## *The Social Credit Solution*

What, then, is the solution?

The aim of Social Credit is to establish by various means, chiefly financial, a new Civilisation based on Freedom in Security.

As the outstanding result of the present system is economic insecurity and contracted freedom, it is obvious that the first and basic requirement is to establish conditions that will give absolute economic security and enlarged freedom. Having these, all other things can be added unto them.

The policy to achieve this objective is moulded on the ideals and philosophy of Social Credit.

These arise from a profound belief in the value of human personality, the need for the free expansion of individuality and the conviction that all social, political and economic organisation should exist for the benefit of the individual and to promote his self-development to the highest degree.

Douglas has stated this philosophy in "Economic Democracy" as follows:—

"If any condition can be shown to be oppressive to the individual,



no appeal to its desirability in the interest 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 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."

This aim and philosophy is the very opposite of Financial Capitalism, which destroys individualism and freedom by economic compulsion, and of Communism, which destroys them by regimentation.

These two forces, now arrayed against each other for world domination, must result, if either triumphs, in Totalitarianism and Slavery.

The only alternative to such a world tragedy is Social Credit which would result in Economic Democracy and Freedom.

## *Approach to the Solution*

The approach to the Social Credit Solution is twofold; it must conform to the philosophy and objective and must provide a scientific and adequate technical method to make it effective.

No violation of social justice would be necessary or even considered; it must not be animated by any revenge complex or motivated by hate or any theory of the class struggle.

In it there must be no discrimination, no mere transfers from the "Haves" to the "Have nots," no attempt to benefit any one section of the community at the expense of any other.

Though Social Credit does not subscribe to the cloudy and unnatural idea of human equality, it is **not a sectional reform**.

It ignores parties and classes and in its objective of absolute economic security for all it puts the welfare of the **consumer** as its basic consideration.

As everyone is a consumer, Social Credit would serve the whole community equally. **The accent on the consumer is all important in any economic reform.**

The objective of Social Credit, as stated by Douglas, is something that far transcends any mere change in the financial system.

It seeks "to bring to birth a New Civilisation" and by various changes, "chiefly financial" to enable the human community to step out into a much better world.

The first and basic requirement for this, according to Douglas, is to establish absolute economic security.

This is not revolution but evolution; it brings in natural sequence a new world from the old. It does not propose a change by violence

or think it necessary to bring down the present system in ruins in the hope of building a new world out of the wreckage.

Social Credit acknowledges the immense benefits as well as condemns the great evils of the present system and believes it is essential to retain what is good in it whilst eliminating the evil.

## *The Good of Capitalism*

The driving force of Capitalism is the inducement offered to private enterprise to produce for profit.

This is the main reason for its continued existence and the secret of its success and benefits. Without profit no progress is possible.

There are only two methods of getting things done in this world—inducement and compulsion. Social Credit believes strongly in the method of inducement both from the moral and economic viewpoints.

Therefore it would retain and further stimulate private enterprise for profit and discountenance all State activities that depend on compulsion.

But Social Credit recognises that profit without proper safeguards can become, and has become in many cases, anti-social, and can easily develop into that all destroying will-to-power which has to be fought and met by the all creating will-to-freedom.

Social Credit would ensure that the inducement to produce for profit would be still ample and attractive whilst the power to exploit would be taken away. Profit would then become social and beneficial.

Private enterprise must be retained for two main reasons.

First: Private enterprise has proved for many years that it is the most efficient form of economic production and that Industry, working in this way, can glut the world with goods without compulsion, regimentation or bureaucratic planning.

The industrial development of the United States, to give one instance only, proves this to the hilt, just as the records of State industry in Britain and Australia prove the opposite.

Production by private enterprise would be almost perfect provided that it were not fettered by senseless regulations, crippled by taxation, and further, if the means of consumption were as effective as the means of production.

Second: Private enterprise preserves the driving force that comes from competition and the rewards that flow from individual adventure, ambition, initiative and responsibility.

Communism kills all these desirable things that make for self-development and a rich and diversified social structure.

## *The Evils of Capitalism*

It is in the consumption sphere that Capitalism fails.

Profit which can only be realised by debt, demands bigger prices than industry can supply, as incomes, to meet them, and this prevents effective distribution.

The linking of Financial with Industrial Capitalism in key industries creates monopolies because this access to credit enables big



businesses to carry on at the expense of those less fortunately situated in this respect.

Monopoly success is built on the failure of competitors, due to incapacity of the latter to recover their profits in prices.

The disparity between incomes and prices, as we have already explained, is the major flaw in the Capitalist system of production for profit.

This flaw can be corrected only by the mechanism proposed by Social Credit and only in this way can the evils of Capitalism be eradicated.

These evils are mostly financial. They arise from the use of Money as a Commodity, particularly that form of money known as Bank Credit.

This use of money is really abuse of money and trading in money as a commodity, which is created almost costlessly by ledger entries, and sold for the profit called interest, is usury of the worst type and must be abolished as the first step to any effective reform.

No longer should money as an instrument of power and profit be permitted to its private creators through debt; it must become a medium of exchange only. A medium of exchange that is also a commodity is an economic anomaly that must be corrected immediately.

As already shown, the debt system controlled by the Monopoly of Credit operates to create a continuous and increasing disparity between purchasing power and prices, and we have indicated the economic and social evils that arise from such disparity.

This privilege of creating money now exercised almost completely by the Monopoly of Credit has developed a hidden government more powerful than any elected by the people and has assumed almost unlimited control over the lives of all individuals, businesses and elected governments.

In its international ramifications it is the power over world commerce and the armament makers and so determines peace or war to suit its own ends.

We repeat—it holds the greatest power ever grasped by any institution in the history of the world.

## *The Hidden Government of Finance*

The pressure of this hidden government of finance is felt on every side, and yet, thanks to its control of propaganda and the organs of public opinion over an ignorant and mesmerised public, most people are unaware from whence this pressure comes, but are lulled into the belief that the Banks are the bulwarks of the nation and its salvation in time of need.

Those who do understand whence the pressure comes are too susceptible to the benefits they sometimes derive from it or are too afraid of the consequences to protest openly against it.

And yet the evidences of this pressure, as shown in the condition of their lives, is before them continually and touches them every day.

We have shown previously how much the people of Australia



depend on credits issued by the Banking System and the pressure exerted on them by the huge burdens of private and public debts and taxation.

As a consequence Australia is bleeding to death and one looks in vain to the Government and the Opposition for any attempt to find out the real cause and arrest it.

The only remedy proposed is to widen the wound and a return to the mediaeval practice of more blood-letting as a cure for everything.

Both political parties take their advice from economists and slavishly follow it. ("In the kingdom of the blind the one-eyed man is king.")

These experts come from the universities, those institutions which shockingly underpay their staffs and which are crippled in every direction by the debt system that their professors teach and support.

## *The Banks Under Social Credit*

In concluding this section let us say that we have no quarrel with Capitalism on the production side, only on the consumption side.

We have no quarrel with the private banks on the administrative side either. We have nothing but admiration for their great efficiency and the part they play under the existing system in meeting the needs of the community.

Social Credit is opposed to Nationalisation of Banking. Under a Social Credit economy private banks would continue their efficient monetary administration, shorn of their private monopoly of the public credit.

The Banks' argument for the retention of their present standing is that they are merely business organisations rendering an essential service to the community and giving profits to their shareholders similarly to any other business concern.

In arguing thus they point out that their profits are not exorbitant but rather modest in comparison with other industrial concerns.

Social Credit does not complain about the disclosed profits of the banks, though these at times have been excessive and the private fortunes of many bankers all over the world have been colossal.

**What we object to is their usurped power and control of financial credit which is the very life-blood of the community.**

The Banks have only two reasons for continuing to operate as at present, either because they are legitimate business concerns intent on making legitimate profits or because they exist to retain control of the community by their exclusive privilege of creating financial credit as a debt to themselves.

If they wish to retain the latter at the expense of the former then their doom is settled.

But if they wish to operate purely as a business, as they now maintain, then Social Credit can meet them on their own ground.

Their matchless organisation could be used to distribute the

credit authorised by a properly established National Credit Authority and they would be adequately paid for the services rendered.

As book-keepers of the community entrusted with the administration of the peoples financial affairs they would be rendering an indispensable national service and their operations would be continually enlarged.

But the privilege they now have of regarding the public credit as their own, with the consequent power it confers upon them, would be taken away.

Until this fundamental financial change is made it will be impossible to establish economic security, do away with debt and taxation or to step into a new civilisation.

## *Principles of Reform*

The Social Credit Principles of financial and economic reconstruction, apart from concrete proposals, are simple, effective and all-embracing. They have been formulated 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 (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.

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 of 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."

The first principle deals with the all important disparity between purchasing power and prices and corrects it logically by establishing a proper parity, which is neither inflation nor deflation, but equation.

The cash credits to correct the disparity would not flow through the production system carrying with it the costs incidental to their passage.

They must become purchasing power from the end showing the disparity—that is, through consumption. They would be cash credits issued to consumers as a free gift, without debt or interest.

To begin with, these free gifts of money would take the place of old age, invalid, war and widows' pensions, and child endowments, now paid out of taxation.

The credits created could 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 purchasing power, or a combination of both.

These cash credits would only be cancelled as the goods against which they were issued were depreciated or consumed.

The second principle corrects the present practice of lending



credit for production as an interest-bearing repayable debt or of financing production by savings and reserves.

Credits for production must be specially created for the purpose and these would be repayable as at present through their recovery by the producer in prices, **but they would be interest free or at the cost of administration only.** These producer credits also would only be recalled as goods were sold.

Experience shows that the premature cancellation of credit that happens during the downward trend of the trade cycle is one of the main causes of depression and slump because it leaves unsold a proportion of the goods produced, through lack of money to equate with their prices.

## *Man Versus the Machine*

The third principle takes into consideration the march of science and the continuous improvement and use of labour-saving machinery.

The example of the United States shows the capacity of modern production methods and how vital exports are for that country to maintain full employment.

The time is not far distant when every nation will be in the same position as the United States and the resultant problem will have to be faced.

Full employment is incompatible with a machine age and, with the first two principles in operation, will be impossible in the near future.

Provision must therefore be made for those displaced by labour-saving processes.

**They must be paid the wages of the machine; that is, a national dividend must progressively replace the wage and salary so that purchasing power will be available to all.**

The orthodox idea that the factors of wealth production are land, labour, capital and management, and the socialist idea that they are raw materials and labour, do not take into account the most important factor of all.

This is called, in Social Credit, the Common Cultural Inheritance, and it can be defined as the accumulated invention, knowledge, experience and skill, handed down as a common legacy from thousands of benefactors through hundreds of years.

Without this legacy our capacity to produce wealth would still be that of the stone age.

**As this cultural inheritance is common to all it justifies a dividend for all. The National Dividend is inevitable in any progressive economy.**

Social Credit envisages a Leisure Age instead of a permanent Work Age which is the aim of a full employment policy.

Otherwise the march of science and the continual transfer of work from men to machines become meaningless and progress an absurdity.

An economy that ensures full production and consumption, with Leisure, would lift civilisation to untold heights because Leisure gives opportunity for the creative impulse to function and the natural



energy of man would use it to devise ways and means to enrich the wealth and culture of the world.

This enrichment would be made possible by the principles above stated; the economy would not remain static but be marked by continual progress.

Out of these broad and comprehensive principles definite policies and proposals can be formulated to meet the conditions of all democratic countries functioning under the present economic system.

## ***Application of the Principles***

The total profits of all industry, private and national, constitute the total appreciation of a community's wealth over any given period; they are the measure of national prosperity and progress.

Under the existing system, as we have shown, there is no money equivalent distributed by industry to realise these profits. They can only be realised, and then not fully, by debt to the Banking System.

This puts all industry, all individuals and all governments at the mercy of a hidden, non-elected government, namely—the **Monopoly of Credit.**

It is basic to the Social Credit solution that Money should not be a commodity but a medium of exchange only; that it is a sovereign prerogative and right of Government to issue all forms of currency, including financial credit, and that such currency shall be issued without interest.

The right to do this is written or implied in all national constitutions. Failure to exercise this right, due in a great measure to the general ignorance of the creation of credit, and abandoning it as a privilege to private banking institutions only, has subordinated government to finance with the present disastrous consequences.

It is the undoubted duty of Government to create credit, not to borrow it, and it is essential that it should resume this responsibility without delay.

The real wealth or credit of the community is created by the combined activities of all its members working under elected and stable government, and the financial wealth or credit of the community is the monetary reflection of its real wealth or credit and by right belongs to them.

The usurpation of the right to create financial credit by private institutions divorces the community from its real credit and financial changes are necessary to give the community proper access to the credit they have created.

## ***The National Credit Authority***

To do this, the government, representing the community as a whole, must establish a National Credit Authority, armed with all necessary powers and free from party political control.

This National Credit Authority would be empowered to place the affairs of Australia, as a functioning business concern, on a proper

accountancy basis and, having ascertained by statistical data all requisite information, draw up a National Trading Account and Balance Sheet. This would show over any given accounting period the business position of Australia.

As Australia is a progressive country, growing in wealth from year to year, the figures in these statements would disclose the total assets and liabilities and the total national appreciation of wealth over the period. This national appreciation would represent our profit as a nation.

Figures now available through existing records indicate that the profit would be very high in terms of real wealth.

It would be the function of the National Credit Authority to monetise this profit and distribute it to the community as consumer credit, free of debt and interest.

Portion of this monetised profit would be used to pay Governmental administrative charges instead of through taxation as at present; portion would be allocated to pay for Social Services till such time as a National Dividend would be payable to all persons; portion as a retail discount to reduce the prices of consumable goods for sale so that the distribution would ensure an equation of purchasing power and prices. This would achieve the dual purpose of increasing incomes and decreasing prices.

Inflation would be impossible because it is fundamental to the Social Credit solution that this distribution of consumer credit would be used to reduce prices.

Industry, up to the present, has always been financed from the point of view of the producer and this policy is maintained under the fallacious idea that money so issued will liquidate the prices of the goods so produced.

But it is now admitted by many orthodox economists that we must also finance the consumer.

In fact many banks are now doing this through hire-purchase and other arrangements, but it is all done by putting the consumer further into debt.

This does not solve the problem and it can only be solved by free consumer credit. Social Credit insists on this radical change so that the total wanted product of Industry can be sold up to the limit of producer capacity or of consumer demand, whichever occurs first.

## *The Price Subsidy System*

The principle of a Government subsidy to stabilise or reduce prices is firmly established in Australia and elsewhere. In Britain it has reached the enormous sum of over £200,000,000 a year.

But these subsidies are paid out of loans and taxation and so to a large extent their benefits are cancelled out.

Under Social Credit the money issued to reduce prices would carry no debt and the benefits would be unqualified by taxation.

Every advance in industrial economy under the existing system of financing production by debt is marked by increased prices, a diminishing purchasing power of every unit of money, higher taxation, social unrest, economic insecurity and international friction.



The evidence of these things is universal and can be attributed to no other cause.

An economy financed on Social Credit principles would decrease prices, increase purchasing power, eliminate taxation, insecurity and unrest and do away with the major cause of war.

The most universally evident result of the existing system is Taxation.

No one escapes its incidence—direct or indirect—. It has a double effect; as a cost in industry it increases the price of goods; as an impost on the consumer it reduces his purchasing power.

All sections of the community demand reductions in taxation because of its evil effects but no political party attempts to get down to its cause and abolish it.

Social Credit supplies the solution. Out of the National Profit, monetised in the way indicated, all administrative charges and all social services could be financed in bulk without taxing the individuals of the community. Taxation as a means of revenue must be abolished.

By accepting the diagnosis and applying the remedy herein outlined the best features of Capitalism would be retained and its evils eliminated.

Private enterprise, free competition and the profit motive would still operate, but in such a way that the inducement to produce would be ample whilst the urge to exploit and maintain industrial power for power's sake would be taken away.

No longer would all human activities exist to serve a financial objective or money be used as an instrument of control; it would become the servant and not the master of mankind.

Under Social Credit there would be no need for regimentation with organised plans and blue-prints for all industries or an entrenched bureaucracy to administer all activities.

A planned economy means a servile State, supervised and policed from a centralised authority.

Its success, if it could be successful, would depend on compulsion and a people willing to sell themselves into servitude.

The only effective economy is one of **inducement** and **personal freedom** and the finest form of planning is that arising from effective demand—that is, of adequate purchasing power at all times in the hands of consumers.

Consumers, in a free economy, give the orders required by them to suit their tastes and needs; in a planned economy they have to accept what is provided for them by the planners.

Private enterprise in a free economy has proved that it can provide all goods and services more efficiently than Government or Communism can do so. What Industry needs is more freedom, not less, but not the freedom to exploit.

With sufficient purchasing power assured through the necessary proportion of consumer credit to take all wanted goods off the market, Industry would progress rapidly; everyone, through earnings and shares in the national profit through dividends, would have economic security and the priceless boon of individual freedom would be the heritage of all.



## ***Social Credit and the Individual***

If we may attempt a summary of the benefits of a Social Credit Economy as we see them we could do so under four headings: (1) Individual; (2) Industrial; (3) Political; (4) International.

Social Credit does not pretend to be a panacea for moral regeneration but its advocates firmly believe in the fundamental nobility of man and so aim to establish the environment and conditions where inherent virtues can flourish and evil tendencies wither away.

The decline of morality and the reversion to the law of the jungle so characteristic of our modern social life can be attributed more to the conditions arising out of the present economic system than to any other causes.

Take these conditions away and man will rise to heights undreamed of. The first step to this end is the provision of absolute economic security for every individual.

Economic security is the foundation of all freedom.

Having this each individual would have freedom to choose or refuse any project put before him, provided he did not infringe the freedom of others by so doing.

He would be freed from regimentation and the control of his life and activities by economic and financial compulsion. He would have the chance to develop all his faculties and so help to create a widely diversified community instead of a standardised one.

The more diversified a community the richer it is, more colourful, more tolerant, more alive. Personal freedom expands the human spirit and enlarges all culture.

With a National Dividend each person becomes a willing partner in a co-operative commonwealth and the idea of the class struggle, with its gospel of hate, would lose its appeal.

Leisure as well as work would be his portion—leisure to think, to create, to enjoy. Life would no longer be an existence forcibly dedicated to endless toil, but one devoted to the art of living, the satisfaction of work done, of services rendered, and all those things that should make man only a little lower than the angels.

We firmly believe that Social Credit would enable mankind to step into a new civilisation where all these desirable things could be realised.

## ***Social Credit and Industrial Strife***

Under Social Credit most of the causes of social and industrial unrest would disappear.

Profits would become social instead of anti-social and employees would become more or less partners in production through the National Dividend, lower prices, and greatly increased purchasing power.

Private enterprise and profit would still remain because they are the most effective methods of production, but the producer would be freed from the dread of recurring depressions and the curtailment of his advances from the private banks.

## ***Social Credit and Government***

We have previously stated that economics determines politics and finance determines economics.

All democratic governments function under the Capitalist system of production for profit and almost all laws and regulations are affected by this relationship. Every year new laws are made intended to make this system work more effectively and to reconcile social conditions with industry and finance.

To police these laws and regulations new boards and jurisdictions are created, requiring a continuously growing army of officials and thus taking into the administrative field a large number of people who could be better employed in producing the wealth upon which all prosperity depends.

Not only do these administrations absorb large numbers but private industry is also forced to increase staffs to cope with the governmental demands for reports and statistics. All this further hinders production.

These laws and administrations arise as a direct consequence of the working of the Capitalist system and the financing of governments and industry by debt.

They are also increased by the growing desire of governments for more and more power and authority and to the policy of creating jobs for all.

It seems to be an obsession of governments to create jobs that are unnecessary and to pay men for useless work on the pretence of maintaining full employment, especially when this can all be done by borrowing and taxation.

Under Social Credit the need for these excessive government staffs would vanish. Administration would be greatly reduced and the charges to meet necessary expenditure would be taken in bulk from the monetised profit of the nation.

## ***The Vast Potential of National Development***

The ruinous cost of government due to the existing debt system prevents the carrying out of great and vital activities and projects that should take a foremost place in Australian national policies and it is in this wider sphere that the change from a Debt to a Credit economy would be most far-reaching.

There is a clamant demand for material development in all directions, for immigration, water conservation, hydro-electric schemes, for education and all those things needful for our security and future greatness.

The stumbling block is finance—the devotion to Debt which is crippling all national advancement.

With the vesting of credit issues and control in a proper Authority all these things could be done because it is an undeniable axiom that what is physically possible is financially possible.

We know that they are physically possible; Social Credit would make them financially possible.



Australia, in its present state of development, presents the finest opportunity ever known for establishing a model State and it is only the folly and stupidity of those in control of our affairs, political and educational, that prevent our becoming a nation that could save itself by its own policy and the world by its example.

It is neither necessary nor expedient that the principles of Social Credit should be brought in by a new Party created for the purpose though circumstances may compel such a party to be established.

They could be put into operation by either the Labour or non-Labour Parties, provided they are willing to change policies that cannot possibly give the results wanted and are prepared to acknowledge the soundness and practicability of the Social Credit solution.

The problem to be solved is not a party matter at all; it is simply a recognition of the rights of all individuals as consumers to freedom and security at all times and is, therefore, national and not sectional.

## *How Labour Faces the Problem*

But how do these major parties face up to the problem?

The Labour Party is entirely Socialistic in conception and its policy leads to pure Communism.

It is useless for this party to say it is an enemy of the latter—it is a fellow-traveller with the Communist Party and is devoted, through its objectives, to the very same policy.

No party so depends on the advice and influence of its leaders from the Trades Union Movement and no section of the community follows its leaders with such blind and unreasoning loyalty.

These leaders are predominantly Socialist with a strong Communist complex and their policy is dictated, not by any great understanding of the vital issues, but by class-consciousness—a violent antagonism to the employer, who is represented as Capitalism Incarnate.

Abolish Capitalism and you liquidate the employer and the worker comes into his own.

This is the gospel preached with fervour and little note is taken of the fact that in Soviet Russia—"the workers' fatherland"—there is more class-consciousness than in any place on earth and the lot of the worker is little more than regimented slavery.

A few of the more thoughtful and intelligent men in the Labour Party are realising this, but they are either overawed by the minority of fanatical Communist leaders in the Unions or so fettered by a creed outworn that they have neither the courage nor the initiative to break away from it.

## *Is the Liberal Party Equal to the Task?*

What about the Liberal Party? Their policy is almost negative. To put the Labour Party out of office, which is their main plank, is no solution at all unless they are prepared to undo much of the work of the Labour administration and to provide something infinitely better.



Will the suppression of Communism as an organised body without the suppression of the **main causes** of Communism be effective? It will not.

There is ample justification for condemning the philosophy and aims of Communism and the deliberate and wanton sabotage of industry by its leaders, but suppression is no remedy.

Such action is a negation of democracy, a violation of the right of free opinion, free speech and free association which is or should be a cardinal principle of Liberalism.

Communism arises primarily from the evils of Finance Capitalism, a system whereby there is an inequitable distribution of the rewards of industry, a system that fails to give permanent economic security to the masses and shackles everyone with the burdens of debt and taxation.

Does the Liberal Party make any suggestions to ameliorate these evils? It does not.

It advocates a token reduction of taxation, not an abolition of taxation, but sustains the principle.

It suggests nothing to reduce the burden of debt, but offers a policy that increases it and therefore automatically increases the weight of taxation.

## ***Full Employment is Not the Solution***

Will the Liberal policy of Full Employment solve the problem? It will not.

Full employment only justifies itself if the **product** of Full Employment can be sold without debt and this is mathematically impossible under the present system of finance.

If 100,000 unemployed were given jobs at £10 a week, their wages would amount to £50,000,000 a year.

Employers must make a profit on these wage-costs if they are to survive and if that profit is only 10 per cent. then the prices of the goods produced by these men must be at least £55,000,000, or £5,000,000 more than the money available to buy them. A breakdown must come.

The Liberal Party shuts its eyes or is incapable of seeing the results of the policy it advocates.

It has failed in the past and must inevitably lead to another economic disaster such as we experienced in the last world depression.

If and when that comes it will spell the doom of Liberalism as a political force and the end of free enterprise in our national economy.

Profit sharing, incentive payments, increased production and full employment, no matter how desirable in themselves, are only possible under an economy that ensures an equation between purchasing power and prices and this can never be attained under existing Labour and Liberal financial policies.

Till this essential is fully realised and appreciated the policy of the Liberal Party will rapidly be proved futile and its failure will make the case for Communism doubly strong. Another alternative is urgently needed.

At the moment, Social Credit is the only sane and positive one propounded that offers a satisfactory solution to the many great problems which confront this nation.

## ***Social Credit Would Raise the Status of Parliament***

Under Social Credit the political parties, which represent groups of vested interests intent on securing by legislation special advantages for themselves, would cease to operate as at present because the problems they are incapable of solving would automatically solve themselves.

The member of Parliament would then become a representative of his constituents in fact as well as in name and not be merely the tool of a party group or caucus without independence of opinion and freedom of expression.

Questions of domestic or national importance could be discussed on their merits and legislation drafted accordingly. Parliament would become, as it should be, the supreme deliberative body, reflecting the wishes of electors and making laws for the good government of all.

We would then not see our foreign policy dictated by wharf labourers or union secretaries without responsibility, our economy directed from Moscow or our financial affairs regulated from Wall Street.

Under the system that controls Parliament today it seems that continuous legislation is required to make it work at all.

We are enmeshed in laws and regulations to such an extent that the average person has little understanding and less respect for them. What Australia needs is fewer laws, not more; less regulations and greater freedom.

Laws should be simplified and exist only for the benefit of the individual and to promote welfare and happiness.

A country that provides economic security for all and does away with oppressive debt and taxation needs few laws and few administrators because it creates a law-abiding community. Social Credit would do this.

## ***The Answer to International Chaos***

The numerous world bodies that have come into existence during the past few years to try and solve the chaos of international affairs prove that a vital change is needed in the system that creates these problems.

If the problems of individual nations are insoluble under present policies it seems incredible that they can be solved by international action whilst retaining and applying the policies that cause them.

Before international relationships can be adjusted it seems logical that each nation first put its own house in order.

If the economy of every country is properly arranged, then international relationships will adjust themselves.

Trade must be permitted to flow in such a way that the struggle by one nation to obtain a favourable balance of trade at the expense of others must be ended.

It cannot be done by putting one nation in debt to another or making trade depend on the juggling of currencies.

A situation that makes the trade and therefore the prosperity of any nation depend on the availability of "dollars" or "sterling," for instance, cannot last. It is the greatest factor in international friction and the prime cause of war.

International trade must eventually resolve itself into an equal exchange of commodities—exports and imports must balance.

The demand for nationalism, as exemplified in India, Pakistan, Indonesia, Palestine and elsewhere, shows that the desire of the people is to retain or achieve nationalism.

A true Internationalism is not incompatible with this desire and the world as a whole is enriched by national aims and cultures.

When every country has established economic security within its own borders the way would be open to a free interchange of ideas between nations, passports could be abolished, tourist trade encouraged and the special benefits evolved by each nation would become the common property of all.

We believe that the establishment of Social Credit in all countries would do more to solve the problems of internationalism than any scheme yet propounded.

Persistence in the orthodox diagnosis and solution and the appalling policy of trying to solve international affairs by interest-bearing debts to a World Bank and Monetary Fund will only aggravate the present discontents, accentuate the struggle for markets, and more and more place the destinies of the democracies in the hands of international financiers, to whom the control of credit gives unlimited power and profit and whose dictates now determine all human activities.

As William Jennings Bryan once stated—"This power can only be overthrown by the awakened conscience of mankind."

It will be a tragedy of the greatest magnitude if this awakened conscience turns to Communism as an alternative. The world can only be saved by the sanity of Social Credit.



