THE NEW TIMES SURVEY

Vol. 25 No. 10 October 2024

IN THIS ISSUE

Some Critical Comments Re: "The Money Myth Exploded" – Otherwise known as "Salvation Island" By M. Oliver Heydorn 61

Reconstruction By CH Douglas 67

Some Critical Comments Re: "The Money Myth Exploded" – Otherwise known as "Salvation Island" By M. Oliver Heydorn

One of the first attempts by Louis Even to explain the Douglas Social Credit analysis and remedial proposals was written in the mid 1930's and is known as *"L'Île des Naufragés"* or *"Island of the Shipwrecked"*. It is, in essence, a fable that is intended to explain in an easy to understand format the basics of the Social Credit message to the newcomer. The Pilgrims of Saint Michael, a Catholic organisation that Louis Even had established and which has been promoting Douglas Social Credit for many decades now, continues to employ this story to this day in their promotional materials under the names of "The Money Myth Exploded" and/or "Salvation Island":
https://www.michaeljournal.org/articles/social-credit/item/the-money-myth-exploded.

It was indeed through the efforts of the Pilgrims that I first became properly aware of Douglas Social Credit in the early 2000's and "The Money Myth Exploded" was one of the first documents which I had read. For their zeal and dedication, I am eternally grateful, but my further in-depth studies of the Social Credit doctrine accomplished in the intervening years have now obliged me to provide the following caveats. Whatever its merits, and there are many, a too literal or out of context reading of *"The Money Myth Exploded"* can lead the reader to some erroneous and seriously misleading conclusions. It is therefore necessary to explain what these are in some detail so that any such deviations can be scrupulously avoided.

What the Story Gets Right:

Before proceeding to the critique, however, it will be instructive to emphasize the key points which the fable gets right.

1. Yes, the private banks do create the bulk of the money supply in the form of bank credit and inject it into the economy whenever they make a loan or other purchase.

2. And yes, it is the real wealth of the community (which is owned by the citizens) which allow the banks to create this money. That is, the real wealth of the community (and not gold, as was alleged during the days of the gold standard) is the ultimate asset which backs or gives value to the money that the banks create. Without these goods and services, or the raw capacity to produce them, all of the gold, or any other conceivable forms of money present in the universe, are of no value whatsoever.

3. To further complicate matters, it is also true that the banks do make an implicit claim that the money that they create is their money (even though the real wealth over and against which they create this money is not theirs) because they expect the money they create to be paid back or otherwise returned to them.

4. It is indeed obviously true that the banks do charge interest on these loans and various service fees for this and their other services, that these fees can be, and often are, exorbitant, and that failure to pay debt and interest can lead to the confiscation of the collateral that was put up as a guarantee for the loan.

5. It is likewise true that all loans cannot be paid back in the aggregate, but not for the reason that is cited (i.e., the charging of interest) … more on this later.

6. It is correct that real wealth consists in goods and services that answer to human needs: food, clothing, shelter, etc. Real wealth is not gold or paper money, or any kind of money at all. Money is, or should be, just a token, a representation of real wealth.

7. It is true that if there is insufficient money to catalyze production, a country's economy will be paralyzed to the extent that money is lacking, as was notably the case during the Great Depression.

8. In general, it is incontrovertibly correct to assert that the money system that is set up in any nation should serve the inhabitants of that nation on an equitable basis and not the interests of an oligarchic plutocracy at the expense of the common good. It is also the case that, while Douglas Social Credit would embody the ideal of the former arrangement, the current financial system reigning the world over is an exemplification of the latter category. There is a need for a new National Monetary Policy that would put the interests of the general community first and not those of bankers.

9. The political implications of the fable are also incontestable: whoever controls the money system must control the economy, the nation, the world, etc. Given the way our civilization is currently structured, i.e., its dependence on a fundamentally dishonest and dysfunctional (but wealth & power-centralizing) financial system, the Money Power must be the Supreme Authority. We run our economies, in the first place, to serve the overriding interests of financiers and under the conditions they deem appropriate (for themselves).

To maintain that control, control of information, of the media, is vital. This political control of information is used to keep people in ignorance, to discredit legitimate criticism, to prevent it from arriving in the first place, and to distract people's attention from the real issues. One particularly effective method of achieving this latter aim is to use propaganda, i.e., publicity, to divide the population into two or more warring camps on the basis of some false dichotomy: "Liberals vs. 'Conservatives'" in Canada or "Republicans vs Democrats" in the USA is a prime example … ditto 'capitalism' vs. 'socialism', 'libertarianism' vs. 'authoritarianism' and so forth. Each faction has its own newspapers, TV channels, internet influencers, and so on. This also prevents the people from ever uniting around the real issues and exerting effective, intelligent pressure on the existing authorities to resolve problems in favour of the common interest. The possession and control of money affords all the sanctions necessary to take control of the media and to (mis)direct the factions vying ostensibly for power in the conventional political landscape.

10. It is true that, because of the problems with the existing monetary system, taxes are high and this creates conflict between those who pay the most compared with those who paid less and whose incomes or other benefits are subsidized by the richer. In the same manner, people under the pressure of high taxation look for ways to compensate for their losses by raising prices, exploiting workers, etc. The effect of this on the general morale of a nation is to lower it substantially, with people blaming others, their poor work ethic, or alleged lack of virtue, etc., for the problems that the money system is, in fact, causing. The system tends to bring out the worst in human nature and this has a tendency to ruin the harmony and progress that would otherwise characterize community life.

11. Under the debt-money only paradigm, it is also the case that the richer a country becomes in material terms, i.e., the more it develops its productive capacity and seeks to make use of it, the more indebted it tends to become. The real reasons for this are not so clear in the story, but this will be discussed later. For now let it be stressed that this is a curious state of affairs. It is as if a nation is punished under the existing system in debt terms for its success in terms of real economic development. The total societal debts, including the national debt, are indeed unpayable in the aggregate under the existing system and the grand totals tend to increase exponentially over time.

12. Finally, money is, or should be, just a form of accountancy that represents a) the real capacity to produce goods and services and b) the flow of real wealth in the form of goods and services. Douglas Social Credit merely insists that this system of accountancy should be so structured and should so function that it would provide an accurate reflection of these realities. In other words, it should be an honest system of accounting. If production increases, the volume of money available in the form of consumer income should also increase accordingly.

What The Story Gets Wrong:

Whatever its merits, and there are many, there are four fundamental flaws which characterize the "Salvation Island" story if any attempt is made to apply the story to the economy as a whole. There is a sort of fallacy of composition at play. What may have been true of the Island under the terms or conditions stipulated by the story is not an accurate description of what is actually occurring in any established conventional economy.

Firstly, contrary to what the fable might suggest, the charging of interest is not the main cause of the price-income gap in the economy and, in fact, it does not contribute to the gap in the way that the story suggests. Rather, whatever contribution interest does make to the gap is indistinguishable from the contributions that are made by any profit-making enterprise.

Allow me to explain … in section 9 of the story we read the following: " 'Can the population of the island taken as a whole' he mused, 'meet its obligations? Oliver issued a total of $1000. He's asking $1080 in return. But even if we were to bring him every dollar bill on the island, we would still be $80 short' ". [1] This may be a valid concern within the context of the story, if we assume that Oliver never spends any of the interest he receives, in an attempt, I suppose to bankrupt someone and seize their property. But this debt-virus hypothesis is not an accurate representation of how things work in the real world. In the real world, banks spend money into existence (which they create) every time they pay their own operating expenses. This money finds its way into the community via the wages and salaries of bank employees and contractors. This consumer income can thereby help to offset the interest charges and other fees that banks levy on loans and their other services. Beyond that, a certain proportion of the profit which banks make is also returned to the community via the distribution of dividends or employee bonuses, etc. We are not now dealing with the equity of this arrangement in terms of income distribution or whether, to what extent, or under which conditions, bank profits are ethically legitimate. We are simply emphasizing the fact that the bank is distributing money to offset some significant proportion of its costs and so the gap that is caused by interest is really only that proportion that is undistributed profit.

Secondly, the main cause behind the price-income gap, as per the Douglas analysis, is entirely ignored by the story. The gap exists in the first place due to the presence of real capital in the production process and the charges that are levied in its name under existing cost accountancy conventions. The creation of money as debt is, apart from any question of interest, only a problem because the cycle of debt-creation and its re-imbursement is out of sync (it occurs in a shorter period of time) as compared with the cycle of price-generation and the subsequent price-liquidation. For every 100 dollars, let us say, that is being created by a bank, lent to a

productive agency, and then returned to the bank via other companies or individuals in payment to cover various production costs, only a proportion, say 60 dollars is being distributed in the form of wages, salaries, and dividends. It is the presence of these capital charges (for depreciation, maintenance, capital loan repayments) which generate costs and prices without, simultaneously, in the same period of time, distributing consumer incomes with which those costs and prices could be met. It is the costing of real capital, in other words, which delinks the two accountancy cycles by generating the gap in the rate of price generation vs. income distribution.

The basic flaw in the current financial system is therefore technical in nature. It is this technical problem which makes the debt-only paradigm an inappropriate 'software' programme for running the economy. The system creates debts that are in excess of existing consumer credits to liquidate that debt, but the only solution it can offer is to fill that gap with more debt-money borrowed into existence from itself. But this does not liquidate any costs once and for all; it merely transfers them. It replaces one debt with another. Naturally it is impossible to borrow yourself out of debt. The unrepayable mountain of ever-increasing debt thus emerges as a result of the attempt to fill the price-income gap with debt-money and not from the charging of interest as the story suggests.

Thirdly, while the accounting system introduced in section 17 may be entirely appropriate for a small community of people who are trading their production with one another, it is not an accurate model of how a Douglas Social Credit system would work on the level of the society as a whole. Most production in the modern economy is not individual production but group production involving multiple stages and entities, suppliers, etc. Thus, we need a money system that will allow all of us, including those who do not work, the ability to draw on the central pool of wealth and to arrange for the transfer of raw materials, intermediate products from one firm to another.

Furthermore, because we are dealing with large units and not individuals who know each other, it is entirely appropriate that the discipline of debt be employed in the case of money that is advanced for production. This will help to ensure that money and resources are not wasted on things consumers do not wish to purchase. The use of debt-money for production (and production only) is also one of the key ingredients that generates the price-income gap and thus allows for us to fill it with debt-free consumer credits in the form of the dividend and the discount. Eliminate the use of debt entirely and you eliminate part of the gap. Eliminate part of the gap and we cannot create as much money in the form of a National Dividend or National Discounts to fill the gap.

Contrary to what the accounting model presented in section 17 suggests, the money supply in a Douglas Social Credit system is, generally speaking, not permanent but temporary. Money is created and advanced for production. Some of it is transformed into consumer incomes, and some of it into business revenue. When spent in conjunction with the newly created debt-free dividends and discounts, the consumer income is destroyed in the repayment of producer loans at the retail stage.

The business revenue is destroyed directly or indirectly (through investments) in the repayment of capital loans or lines of credit or is used to restore working capital. Thus the Douglas Social Credit monetary system is debt-free only in an analogous sense. Debt is still employed for the purposes of production, but all production debts can be fully liquidated with an adequate flow of consumer purchasing power, thus debts are dynamically liquidated without requiring the contracting of additional debt to fill the price-income gap (is the case at present).

Now, perhaps the potentially most scandalizing correction has to do with a statement made in section 16 "A Priceless Bit of Information", where we read: "Never at any time should interest be paid on new money". To my knowledge, Douglas never actually stipulated that interest would not be levied on production loans in a Douglas Social Credit system. Certainly, as there would be no more need for compensatory public, business, or consumer debts involving the creation of new money to fill the price-income gap, no compound interest could ever be levied on those debts. This would reduce the interest burden considerably. However, banks would still have to charge clients fees in one form or another in order to cover their costs and, if they serve the public well under a new National Monetary Policy, to make a reasonable profit. There is no reason, apart from aesthetics or friendly public relations perhaps, that these fees could not take the form of simple interest (compound interest is admittedly problematic). ***

1. One of the most unfortunate aspects of *"The Money Myth Exploded"*, however – at least from the point of view of the present author – is that the name of the exploitative banker is Oliver. I am happy to report that his name was not "Olivier" in the original French version, but was "Martin" instead.

Annual Subscription to *'On Target'* $75.00 pa which includes an Insert, the On Target and the NewTimes Survey journals - printed and posted monthly.
Donations & Subscriptions can both be performed by Direct Bank Transfer to:
A/c Title Australian League of Rights (SA Branch)
BSB 105-044
A/c No. 188-040-840
Postal Address: PO Box 27, Happy Valley, SA 5159.
Telephone: 08 8322 8923 eMail: hub@alor.org
Online Bookstore : https://veritasbooks.com.au/
Our main website of the Douglas Social Credit and the Freedom Movement "Archives" :: https://alor.org/
On Target is printed and authorised by Arnis J. Luks
13 Carsten Court, Happy Valley, SA.

Reconstruction by C. H. Douglas 1991

The Social Credit Secretariat in Australasia presents to its readers almost sixty years after it first appeared in the Glasgow Evening Times, a reprint of three articles written by C. H. Douglas. It is considered as an opportunity to counter the many confusing claims of experts on why we have the depression a Commonwealth Treasurer told us we had to have. Who 'we' are and why it was necessary was not revealed.

The impossibility of such a series of articles as those written by C. H. Douglas being published in a daily newspaper today is an indication of the grip international finance holds on the public media.

In the almost sixty years since 1932, as the world moves steadily towards the complete monopoly of credit and news, the International Monetary Fund and the World Bank have been established to control and distribute debt to all countries, while the Reserve Banking System ensures local obedience in all countries where it has been established. At the same time the United Nations Organisation promulgates regulations covering all aspects of living, except finance, which are binding on all members who ratify the all-embracing charters issued by that body. Meanwhile the final steps in the path to World Dominion, a proposed International Trade Organisation waits in the wings to follow G.A.T.T. when the present round of talks most likely ends in indecision and recriminations.

The widest possible distribution of RECONSTRUCTION should be attempted in the hope that confusion concerning the financial dilemma present in Governments and businesses may be clarified and a realistic solution accepted.

RECONSTRUCTION - 1943

The three articles here reprinted from *The Evening Times*, Glasgow, appeared in that newspaper on the 6th, 13th and 27th May 1932, as a sequel to publication by the same journal of an article, also by Major Douglas, outlining a plan for the application to Scotland of the credit scheme which he has put forward as a means of social reconstruction.

While the *'Social Credit Scheme for Scotland'* is still available for those who are both willing to study its provisions and able to assess their practical social and economic consequences, it has become very markedly apparent since 1932 that it is not the absence of a plan that inhibits the carrying into effect of technical measures adapted to the reconstruction of social life on lines capable of leading to general satisfaction. Power to execute plans of any description, designed to implement any policy, is monopolized by a small minority of individuals, of all countries or of none, not inaccurately identified as those in control of International Finance.

During the present phase of the world war, this fact has become plain to many, if not the majority, of intelligent newspaper readers, who are still, nevertheless, confused concerning what are the relevant economic facts of the present world situation, and thus fall an easy prey to planners whose objectives are hidden, to every eye but the expert's, under a disguise of pleasant appearing devices propagandised at immense expense in terms of current abstractionism. e.g. the ‘Four Freedoms’ of Mr. Roosevelt and the single ‘Freedom from Want’ of Sir William Beveridge. The disposition of the public to ‘fall for’ vast schemes, emanating, without any doubt, from a single centralised source, and obviously requiring for their imposition the further expansion of the gigantic wartime bureaucracy, has been noticeably corrected by that same public’s growing resolution to free itself from the menacing grasp of this monster if it can, and as soon as it can.

In consequence, a lusty crop of subtler devices to trap the elector may be expected within a very short time, and, indeed, organisations are already appearing, bearing obvious signs of attention to the recommendations of Major Douglas and his followers concerning the correct lines along which to work to obtain results. Of these some can be distinguished as unsound only by close inspection of the histories and affiliations of the individuals promoting them. Their true character remains to be revealed when enthusiasm for their supposed objectives has risen to such a point as heavily to discount any revelations of the kind.

Unsteadied, the public mind swings from one error of judgment to its opposite. The remedy, if there is a remedy, obviously lies in proceeding steadily to inform the public along as many lines as possible at once, with due regard to the greatest danger of the moment. At the present moment, a great, if not the greatest danger is that the root facts of our situation may be lost sight of. The articles of 1932 go far to make these clear to the widest circle of readers, and, not unnecessarily to limit this appeal, a specific reference to the Scheme for Scotland introducing the original articles has been removed. There has been no further alteration.

References to the glut of produced goods, even now only partially in suspense, have been retained. It does not require unusual powers of discernment to grasp the fact that the jeeps, tanks, aeroplanes, shells, etc., etc., of our vast war production are really kitchen ranges, electrical installations, aluminium saucepans, fertilisers and POWER in an altered form, and that if they were being offered for sale in the shops, the public could not buy them.

References to time present, while they are in all cases references to 1932, are relevant to 1943, a circumstance which in itself reveals how little the realities underlying world events have changed even in these years of change usually dubbed momentous, and the exceptional power of the author to penetrate to their real meaning.

RECONSTRUCTION 1932 By CH Douglas

CAN WE HAVE TOO MUCH WEALTH?

Now I suppose no one would suggest that, even at the present time, there is any serious shortage of actually existing consumable goods - that is to say, food, clothing, and, with certain reservations, shelter from the weather. I have never met a tradesman even yet (although I may if the present situation persists) who complained that his difficulty was that he could not get delivery of the goods on order.

His complaint is always that he cannot sell, certainly not at a profitable price. So that it is quite certain that if the general population had more purchasing power they would get more goods than at the present time, even if no more goods were produced. That is to say, there is an actual surplus of consumable goods at the present time, quite a considerable amount of which surplus goods are wasted, or sold at a loss to the producer.

IMMENSE SOURCES OF REAL WEALTH

But having said this, we have only touched the fringe of the situation. For every loaf which is baked, and for every suit of clothes which is made, there probably exists the potential capacity, even at the present time, to produce three or four times as much, even without the installation of fresh machinery. So that behind the actual surplus of existing consumable goods there is a surplus (in some cases such as let us say, that of shipbuilding and machinery making, a colossal surplus) of unused potential products. But even this is not all.

Behind the unused surplus of existing consumable goods and the unused potentialities of existing productive capacity there lies a huge undeveloped capacity to extend our productive capacity. If anyone doubts that, let them consider the immense destruction of productive capacity which has been systematically carried out in this country since the war by the breakup of industrial undertakings and the decadence of industry. It is probable that the productive capacity of Great Britain has been cut in half since 1920 by the deliberate policy of sabotage pursued by the Bank of England, and it would have been still further decreased had not inventive capacity, organisation and engineering skill still further improved and increased the output per manhour of labour employed.

So that there are three planes upon which it is true to say we possess immense undrawn-upon sources of real wealth.

THE 'SCARCITY COMPLEX'

Now the first trap into which we are likely to fall in considering this matter is, in my opinion, not so much as to whether we have at our disposal the means to become

materially wealthy, because I believe that anyone who will regard the matter without prejudice along the lines that I have just indicated can have no doubt as to the truth of that suggestion. It is to what extent, and for what fundamental purpose, we wish to draw upon the capacity.

Remember that, thanks to the illusion that a scarcity of money is the same thing as a scarcity of wealth, we are nearly all of us under the spell of what the psychologists call a 'scarcity complex'. We cannot believe that it is possible to have too much wealth of a material kind.

But it is easily possible to have too much wealth. We could, for instance, no doubt enormously increase the industrial capital value of Scotland by developing every waterfall and every salmon river into a water power for hydroelectric purposes, but I think myself that that would be a sad day for Scotland. We could each and all of us have a powerful loudspeaker in every room, but I hope we never shall.

So that we have to be very careful to see that we run our productive system for the purpose of supplying all the tangible wealth that we can, as individuals, use with profit to ourselves, and do not, as at the present time, allow it to be run for a number of ulterior purposes amongst which we might instance that of a moral discipline, a hidden government, or a system of rewards and punishments.

THE MONEY-PRODUCING SYSTEM

Now it must be plain, from the co-existence in the world at the present time of material poverty, economic friction, a struggle for markets and other scarcity phenomena on the one hand, and the real and potential wealth I have just indicated above on the other hand - first, that money does not represent wealth, because there is a scarcity of money and there is not a scarcity of wealth; and, secondly, that our primary concern is not with the wealth-producing system but with the money-producing system.

Or to put the matter another way, it seems very difficult to deny that the first problem in dealing with the situation is to make finance, or the money system, reflect facts and to cease to let it control them.

The facts, as we have seen or can ascertain, are that a given amount of material wealth can be produced with a diminishing amount of human labour, but that when this wealth has been so produced the general public cannot buy it because it has not enough money. Since probably well over 85 percent of the money which is distributed in industry is distributed in wages and salaries, it is easy enough to see that the problem of the mere distribution of purchasing power through the agency of wages and salaries (as apart from its total amount) becomes increasingly difficult as we get more and more production with the aid of less and less labour.

But we also find that apart from this question of the distribution of purchasing power there is not enough purchasing power distributed to buy the goods which are for sale if the production of these goods has been financed by ordinary methods. There are many contributory causes to this situation, but it is probable that the main cause is due to the reappearance in prices of the same sum of money several times, a state of affairs which is rendered possible by the splitting up of production into a large number of processes.

If each one of these processes was financed by a fresh creation of money, which money remained in circulation until the goods in respect of which it was distributed were finally destroyed (which is far from the actual case), this situation would not arise. But, unfortunately, even then we should be subject to other technical difficulties connected with what is called the 'quantity theory' of money, which would result in prices rising very considerably above costs where the public had sufficient money to pay these increased prices, thus robbing every wage-earner of part of the value of his wages. In other words, a large additional issue of money by existing methods would tend to produce the phenomena of what is called 'inflation'. Many banking authorities, having for years quite incorrectly described my own proposals as 'disguised inflation', are now calling for undisguised inflation and a rise in prices. So that we have to find some method of issuing the money in such a way that it does not cause a rise in prices.

II

THE CASE FOR THE SOCIAL DIVIDEND

It has frequently been stated that it is impossible to issue money in such a manner as to cause a reduction in prices. Perhaps the shortest answer to this is that it is being done all over this and many other countries at the present time. If I, having a capital of a million pounds manufacture an article of which the cost of manufacture is £5, and by reason of bad business methods, economic depression, or other causes, am forced to sell the article for £4, I am applying my private store of credit, which I call my capital of a million pounds, as a subsidy in aid of a reduction of price to the extent of 20 percent, and I can go on doing it until I have sold a million articles at a pound below cost. And I can continue to do it if my bank will give me an overdraft.

So, to put the matter another way, it is always possible to arrange that the price of an article can be paid for from two sources, one source being the person who buys the article, and the second source the person who sells it, if he sells it below the cost to him. Now, if we imagine the general credit of the country (which is the source from which the banks provide overdrafts) to be substituted for the private credit of

the individual, the question as to whether we can, at one and the same time, issue credit and lower prices is obviously only limited by the question of the quantity of credit we can issue.

BANK CONTROL OF CREDIT

We know quite well that the mechanism for expanding credit to a very large extent exists at the present time, but we also know that this mechanism is at the present time controlled by the banking system, that every grant of a loan by a bank creates a deposit (or an expansion of credit), and every repayment of a loan destroys a deposit.

Also every purchase of a security by a bank expands credit. That is the same thing as saying that when a bank buys shares or War Loan it gets them for nothing, since the payment is made by drawing a cheque upon itself. With certain reservations it is quite obvious that a bank will not dishonour a cheque signed by itself. When this cheque is paid into some other bank again it creates an increase in deposits, which is again an expansion of credit.

The same thing is true of the purchase of gold by the Bank of England, which is merely paid for by a draft upon the credit of the bank, the real value of this credit being dependent on the willingness of the British community to supply goods and services in return for the credit and not upon any tangible value owned by the bank which is handed over in exchange for the gold.

But the question will obviously arise in the mind of the reader as to the limits to which this expansion of credit, under proper conditions, can be carried. He may say reasonably that there must be some limit to the creation of money, and he would be quite right. What is that limit?

DYNAMIC ECONOMIC SYSTEM

Now at this point we approach a somewhat more difficult aspect of the subject, because the economic system is not static, it is dynamic. Production and wealth and consumption can only properly be measured in rates. If we attempt to look at the matter from a static point of view we are sure to make the mistake which formed the starting point of the story regarding the committee of ‘scientists’ who, it is said, were asked to report upon the nature of the hum in a ‘humming top’. Their report was that the whole subject was nonsense, as they had taken the top carefully to pieces and were able to report that there was absolutely no sign of the existence of any hum!

If we grasp this idea, we shall not find it difficult to accept the statement that the wealth of a country, and therefore the basis of its financial credit, is not so much in the things that it actually possesses as in the rate at which it can produce them. Now, the rate at which it can produce them is a composite thing, because side by

side with production we always have consumption, so that we can say that the net rate of production is the gross rate of production minus the rate of consumption, and it is also possible to say that the absolute cost of all consumption is the rate of consumption divided by the rate of production.

INTERESTING STAGE

We are now getting to a very interesting stage, because it is only a step further to say that if we issue money at a rate corresponding to the rate of production we ought not to take it back at the same rate (which is what we do at the present time when we charge all costs into prices), but we only ought to take it back at the rate of consumption, which results in the startling conclusion that we ought to charge less than cost for articles sold, even if the rate of consumption as compared with the rate of production remains constant.

But we know that it does not remain constant. Every improvement of process, machines, and the application of power to industry increases the rate of production without necessarily increasing the rate of consumption, so that not only ought we to have prices of goods below cost, but we ought to have them decreasing in relation to cost.

At that the rate at which we can issue additional credit is easily seen to be dependent upon the rate of increase of productive capacity, while the rate at which we take back existing credit and the new credit should be dependent upon the rate of consumption.

USE OF PURCHASING POWER

So much for general principles by which it is possible to issue additional purchasing power, while at the same time allowing prices to fall. What shall we do with this additional purchasing power? Obviously there are two things to be done with it. First of all we have to make up the loss to the producer which he would incur by selling his product below cost and to allow him a reasonable remuneration in the form of profit. But we shall, I think, find that we have to do more than this, bearing in mind that every improvement of process for a given level of consumption means the displacement of labour. Leaving all humanitarian principles out of consideration, it is not sensible to produce more goods with a decreasing number of individuals employed, unless we make provision that the increasing amount of goods is consumed. So that we have to find a method of providing what we call 'purchasing power', so that those individuals displaced may get the goods which they are not required to produce, and I think there is no doubt that the conception of the dividend provides a perfect mechanism for this.

NECESSITY FOR DIVIDEND SYSTEM

If anyone doubts the necessity for the dividend system in addition to the wage and salary system, they will, no doubt, have a perfect explanation for the fact that as

a result of the failure of many industrial concerns to pay a dividend during the past few years purchases of consumable goods of various kinds have declined to such an extent that unemployment has increased, and the amount distributed in wages and dividends has consequently decreased. So to put the matter another way, it has been demonstrated, in my opinion quite beyond contradiction, that you cannot keep the modern productive system even moderately busy unless you have an increasing number of people who are not employed in it, but are using its products.

That is the justification for the social dividend. If I have made myself clear it will be seen both that it is required, and can be provided, by methods which are fully understood at the present time.

III

THE MONOPOLY OF CREDIT

To realise the nature of the powers conferred upon the holders of the monopoly of credit is to realise at once that, human nature being what it is, any suggestion designed to release the man in the street from the power of this monopoly is certain to be actively, if not openly, resisted. The monopoly is in itself so indefensible, however, on the grounds of reason or equity that a realisation of its nature is quite sufficient to induce the banker (who in many cases is a thoroughly well-meaning member of society) to admit in private that it cannot continue.

At the current meeting of the Scottish Bankers' Association a resolution was carried instructing the committee to consider the terms which bankers should ask on being confronted with nationalisation, it being considered that this was bound to come. If for the word 'nationalisation' the phrase 'socialisation of credit' were substituted I should agree.

TYPES OF CRITICISM

The criticism to which schemes designed to effect the socialisation of credit (by which is meant its distribution to individuals as distinct from its monopoly by bankers) are subjected can in general be separated into three classes. The first type is anonymous, frequently disingenuous, and, in the main, relies upon an attempt to make the subject ridiculous rather than an appeal to reason. From its nature, and probable origin, there is not very much to be said about it.

The second type of criticism arises in the main from a complete or partial failure to understand the existing financial system, and a quite natural tendency to disbelieve that the extraordinary state of affairs which does, in fact, exist has not been exaggerated by its critics. An exhortation to further study seems to be the only

reply to this class of objector.

The third type of criticism is in general based on a failure to appreciate the physical possibilities of the modern economic system as distinct from its financial features. Related to this latter class are most of the serious criticisms which have been advanced against the Scottish scheme of reconstruction, which appeared in the pages of *The Evening Times* of 11th March. One correspondent based his criticism on a suggestion that the Scottish capital account could not be properly constructed so that a 1% dividend upon it would provide the national dividend mentioned in that scheme.

CAPITAL VALUES

Now, I confess that the first clause of that scheme was specifically drafted to induce exactly that criticism. There are many ways of arriving at capital values, and fundamentally there is very little doubt that the correct method of arriving at the capital value of any property is not so much what it cost to produce as the increased production which results from it. We are accustomed to measure production in monetary values, but if the dependence of monetary values upon monetary policy is understood, there is no difficulty in grasping how illusive is such a method.

If I have a shipbuilding plant which cost one million pounds to build, and it is making a loss of £100,000 per annum, I may value the plant at one million pounds, but it is certain that nobody else will. On the other hand, if by a change in monetary policy consequent, let us say, on the outbreak of another war, I am able to make an annual profit of £200,000 instead of a loss of £100,000 it is quite possible that numbers of people will agree that my plant is now worth two million pounds.

Now, the figures of the value of real assets are consistently written down as a result of the operation of a number of factors, none of which are realistic and all of which are financial. In the first place, rating values are based not on what a property cost but what it will let for, the owner doing the repairs. Further, at the instance of banks and insurance companies, there is a tendency to depress capital values of real assets so as to increase the amount of collateral security which has to be provided by an applicant for a mortgage, which is another way of saying that the maximum amount of property passes into the hands of the financial system if or when the mortgage is foreclosed. Much the same forces are at work to ensure that real property and plant is held on the books of financial organisations or even big industrial concerns at figures much below its real value for productive purposes. It is probable to take one instance only, that the buildings belonging to the five great groups of banks and their associated insurance companies are shown upon the books of those institutions at not more than one tenth of their value.

So that in estimating the capital values of the assets of, let us say, Scotland, there

are two main ideas to be borne in mind. In the first place, these values have been consistently written down for reasons which are not physical but are financial. And in the second place, their earning power is conditioned not by their physical utility but by financial policy, which again produces an illusion of diminished assets.

SIMPLE QUESTION

So that we really come back to the problem of giving an answer to a very simple question. Suppose we give, as an initial step, the additional income mentioned in the Scottish scheme to all families entitled to receive it, and suppose that they spend it in buying goods at the reduced prices which would be provided for everyone by that scheme, could those goods be produced? I have no doubt whatever that they could and, if space allowed, I do not think I should have very much difficulty in proving that statement conclusively.

But what is quite indisputable, I think, by everyone is that more goods could be produced than are produced at the present time.

Is there any sane person who does not want to produce more goods than are produced now? Certainly it is not the farmer nor the manufacturer, always supposing they can get remunerative prices. Certainly it is not the large bodies of unemployed who, if we believe what they themselves say, are anxious and willing to return to work on any reasonable terms. Certainly it is not the shareholders in those companies whose reduction in turnover is the direct cause of their failure to pay dividends. Certainly it is not the large landowner, whose land by means of penal taxation is being appropriated, not for the profit of the man in the street, but for the benefit of financial institutions who are coming into possession of all those parts of it which are valuable enough to sustain a mortgage.

ONLY ONE CURE

With the best will in the world to find a more complicated explanation of an extremely complicated world situation, I find it impossible to arrive at any conclusion other than that I endeavoured to put before my kindly Scots audience at St. Andrew's Hall, and that is that the main cause of the world's economic difficulties at the present time is the same in every country, and may be found in the annexation and unjustifiable claim to the monopoly of public credit by financial institutions.

And fundamentally there can be only one cure for this situation:

to place that credit at the disposal of those from whom it arises

- that collection of individuals which we agree to call 'the public'.

***