"All that is necessary for the triumph of evil is that good men do nothing . . ." — EDMUND BURKE.

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## Morality, Douglas Social Credit, and Economics M. Oliver Heydorn

It is possible to frame the Douglas Social Credit diagnosis for our financial and economic woes, as well as its remedial proposals for monetary reform in the common interest of the citizenry, in terms of morality.[1] Like the thread of Ariadne that led Theseus through the labyrinth of the Minotaur and safely out again, a specific understanding or conception of morality can serve as the *fil conducteur*—the guiding thread—which unfolds the DSC diagnosis and remedial proposals step by step in a systematic, logical way. Yet the deeper reason this moral framing actually succeeds as an explanatory heuristic is that the DSC model is itself endogenously moral: morality is not to be applied to the system from outside by the action of some agent (who presumably directs the system to moral as opposed to immoral ends); rather, morality is built right into the ordinary operating structure and everyday functioning of the DSC model from the very beginning.

Let me begin by observing that the conception of morality in question here is not an abstract morality, a "moralism", which involves trying to impose some ideal as to how we think the world "ought to be" onto the real world, in keeping, let's say, with some theoretical standard of justice. This is what happens when someone rarifies some ideal like "equality", or "from each according to ability, to each according to need", or "To each according to contribution" and insists that it be instantiated in practice regardless of its practical effects. Rather, the conception of morality that will be introduced as a heuristic principle for explaining Douglas Social Credit is a realistic conception of morality, one that endorses that specific arrangement of various elements into a larger whole which actually works best in the real world. "That is moral which works best" as Douglas once put it.[2] What we are taking as our point of departure is a natural law morality according to which something that fulfills its nature well shows itself to be good, whereas something that fails to fulfill its nature falls short of that goodness.

Now, in order to determine what "works best" in any particular field of human endeavour which involves consciously directed action, we have to first determine what is the correct end of the activity in question and what are the correct means to be employed in service to that end. That is, we have to determine what is the purpose of a thing, in this case, what is the true or correct purpose of the economy? Why do we engage in economic association in the first place? What objective(s) are we aiming to secure? This is not a subjective or relativistic question; there is actually an objective answer to the question that can be demonstrated as correct because the failure to identify the right end has such dire consequences in the real world.

Once this true purpose has been identified, the next logical question is: what specific means need to be adopted in order to fulfill that purpose well? After those means have been correctly identified we can combine the correct end with the correct means, i.e., to do the right things in the right way. The natural reward for abiding by what the natural law requires in terms of ends, means, and principles, is fulfillment of a being's potential for goodness. This particular approach to the issues at hand is actually quite Aristotelian. Just as the purpose of a knife is to cut and hence a good knife is one that cuts well, we can define a good economy as one which fulfills its purpose well. Beyond Aristotle, I would say that this understanding of a natural law morality goes back to Zoroaster and to his notion of *asha,* i.e., that architecture or blueprint of action which, because it works well once applied, generates a minimum of friction.

What we are really taking about with this particular conception of morality as applied to economic systems is *teleological functionality*: the successful fulfillment of the system's true purpose through the appropriate means. Mere operational functionality—the capacity of the system simply to keep running without internal breakdown—is necessary for teleological functionality but it is not sufficient. A financial system can remain more or less operationally stable while serving a deviant end, and in that case it falls short of the good even though it continues to function.

So what is the true purpose of the economy and what needs to be done in order to achieve or fulfill that purpose well? The answers to those questions will provide us with a standard of evaluation, with a correct criterion. That criterion can then be used to evaluate any concrete economy in terms of the extent to which it successfully fulfills its true purpose given its physical potential to do so. Within the context of social affairs, because the full functionality of social arrangements will deliver the greatest satisfaction to people, the morally right economic arrangement is also the arrangement that will bear the greatest stability (it will involve the least amount of friction).

According to the Douglas Social Credit analysis, the true or correct purpose of the economy is this: to deliver the goods and services people need to survive and flourish with the least amount of human labour and resource consumption. How do we know this? How can we prove it? Well, it is the reason we enter into economic association in the first place and it is only when and to the extent that this purpose is fulfilled that economic association itself can continue in existence. In other words, the true purpose of economic association necessarily coincides with its *raison d'être*.

From this it follows that a lot of things that people might posit as the purpose of the economy are, in fact, not the true purpose at all, but are a means *to*, incentives *for*, or superabundant effects *of* the fulfillment of the true purpose. Jobs, money, and moral discipline, for example, have sometimes been advanced as the purpose of the economy, but is easy to demonstrate that they mostly certainly are not *the* purpose. Consider the following thought experiments: imagine an economy that provides jobs for all in perpetuity with plenty of work, or one that maximizes financial outcomes as an end in itself (an economy that exports all of its production in the dearest foreign markets, let us say), or one that, through its artificial production and consumption constraints requires extreme discipline in order to maintain the system in operation. But, if the economy that maximizes jobs doesn't provide sufficient goods and services to maintain people in existence and able to continue to do the work, the economy itself will collapse. The same is true if an economy maximizes money returns but sacrifices all of its production of goods and services for the sake of exports. Finally, moral discipline, no matter how rigorously enforced, cannot maintain the economy in operation if the goods and services that people need to survive and flourish are not forthcoming in sufficient volume. That the economy is there to deliver the goods and services people need to survive and flourish with the least amount of labour and resource consumption keeps reasserting itself as the fundamental fact from which no concrete economy can escape.

So far we have identified the correct end, the correct objective of economic association, the next question to logically follow is: what are the correct means? There are a number of factors here that could be cited, but the Douglas Social Credit analysis focuses on one in particular: the design of the financial system. DSC recognizes that, in order for the economic system to fulfill its purpose well, the financial system needs to be properly designed. In other words, the proper financial design is a necessary condition for the fulfillment of the economy's purpose.

More specifically, the financial system needs to accurately reflect the relevant facts of the real economy. Just as a thermometer needs to give accurate information in order for it to be useful as a tool for the purposes of the thermometer reader, so too the financial system needs to give accurate information, needs to paint an accurate picture of the real economy, in order for it to be fully useful to the end users of the economy: consumers. The *figures* that the financial system generates needs to correspond to the *facts* of the real economy.

On the level of production, whenever there is, on the one hand, some legitimate desire on the part of the population for some good or service, some good or service that they need to survive and flourish, and, on the other hand, all the factors of production need to produce those goods and services (raw materials, labour, real capital, know how, etc.) then the financial system, if it were an honest system, would enable the requisite producer credit to be created and injected into the economy in order to catalyze the desired production automatically. In other words, money for needed production should never be the limiting factor. Finance should follow the real economy, not limit the real economy artificially. If it were an honest system it would do so as a matter of course.

Unfortunately, the current system does not automatically provide the volume of producer credit necessary to fully catalyze the desired production. In this sense, it is structurally dishonest because it fails to accurately reflect the useful productive capacity of the real economy. Douglas Social Credit proposes to correct this by establishing a National Credit Office that will maintain a National Balance Sheet. The excess of assets (factors of production) over liabilities (money claims on those assets), will reveal the net worth of the nation and, in conjunction with real demand, provide the basis, the backing, against which additional credit can be created for production. As long as useful productive capacity (i.e., productive capacity in view of real demand) is left unused, additional producer credit to catalyze that production can, would, and should be created and issued to productive organizations whether public or private.

On the level of consumption, whenever a certain volume of goods and services has been produced at a certain level of remunerative pricing (costs plus a reasonable profit margin sufficient to maintain the incentive to produce), a sufficient flow of consumer purchasing power should be *automatically* distributed to consumers in one way or another so that all of those goods and services can be distributed to the end users of the economy and retailers can cover all of their costs while making a profit. In other words, an honest financial system will automatically register in income or purchasing power terms the full value of what is being produced in cost and price terms.

Unfortunately, the current system does not automatically provide the volume of consumer credit necessary to fully absorb the flow of actual production. In this sense, it is structurally dishonest because it fails to accurately reflect the consumptive capacity of the real economy. It is also structurally unjust because the goods and services have already been paid for in full in physical or real terms. That is, the community has handed over the raw materials, labour, use of real capital, application of know-how, etc., in order to bring those goods and services into existence. If the financial system reflected the real economy accurately, what has been paid in physical terms should be automatically payable in full in financial terms.

Obviously, if some of the money that is distributed as consumer income is saved, and if the money that is being saved exceeds the rate at which previous savings are re-entering the economy, there is going to be a deficiency, but the main cause of the deficiency that occurs is of a different nature entirely on the Social Credit analysis.

Douglas maintained that, under existing cost accountancy conventions in conjunction with the cycling of money in the form of credit in and out of the economy through the operations of the banking system, not all costs in production are distributable as concurrent income or as income at all. The discrepancy is due to the nature of real capital and how two streams of costs are set up whenever real capital is brought into production: CapEx and OpEx charges. Businesses have to demand more from the consuming public than they simultaneously distribute to the consuming public because financial, depreciation, maintenance and similar costs have to be collected and they are collected at a faster rate than any consumer income might be distributed by the disbursement of those costs.

Now, the reigning financial system, in which the private banks exercise a monopoly on credit creation fills this gap, in the main, by relying on additional borrowing: government deficit-spending, business expansion/investment, and consumer loans. This debt tends to be long-term in nature and involves the accumulation of compounding interest. The banks thereby become the chief beneficiaries of the conventional methods of filling the gap as wealth, power, and privilege are centralized in the hands of those who own the system. At this stage, the *de facto* purpose of the economy operating under the reigning dishonest financial system is to serve the economic rent-seeking and illegitimate power seeking of the credit monopolists and the fulfillment of this deviant purpose can only come at the cost of failing to fulfill the true purpose of economic association that was identified earlier.

The consequences of the conventional palliatives for filling the price-income gap are far-reaching: the business cycle, constant inflation (mostly cost-push, but also demand-pull), the misdirection of economic resources, economic inefficiency, economic waste and sabotage alongside forced economic growth, an ever-increasing mountain of societal debt that is, in the aggregate, unrepayable, recurring financial crises, heavy and often increasing taxation, wage and debt-slavery, servility, the usurpation of the unearned increment of association by the private banking system, the centralization of economic wealth, privilege, and power in fewer and fewer hands, forced migration, cultural dislocation, unnecessary stresses and strains, social conflict, environmental degradation, and international economic conflict leading to war. In short, the system remains operationally functional only at the price of systematically frustrating the true purpose of economic association and generating a great deal of friction in the process. This is the heavy cost we pay for operating a financial system which is lacking the endogenous financial morality that would actually fulfill the economy's potential for goodness.

Douglas Social Credit, by contrast, proposes to correct this deficiency in a way that will serve the common interest of the citizens instead and thereby align the correct end of economic association with the correct means in accordance with the correct principles. The National Credit Office mentioned earlier will also have the task of introducing and maintaining a National Profit and Loss Account. The excess or surplus of goods and services produced at remunerative pricing over and against incomes distributed, will reveal the profit of the nation, and this profit provides the basis, the backing, against which additional credit can be created for consumption. As long as there are goods and services that are available for which no consumer purchasing power exists, additional purchasing power can be created and distributed to consumers.

The direct payment to consumers is known as the National Dividend. The indirect payment is known as the National Discount or compensated price. Both are to be issued in the form of debt-free credit because these are monies that are owed to consumers in recognition of the fact that the real costs of production have already been met by the community and in order that the flow of consumer purchasing power can balance the flow of prices. The injection of these compensatory consumer credits renders the financial system self-liquidating and hence structurally honest, as well as just.

Even when it comes to the details as to how the discount and the dividend are to be implemented, the principle that the financial system should accurately reflect the real economy is carefully followed in the DSC model. Douglas taught that the true purpose of production is consumption, as we have already seen.

He also taught that the true cost of production is consumption. In other words, the consumer should only be charged for the cost of what was actually consumed in the process of production. Under the reigning financial system, the consumer is effectively charged for real capital twice over, once for the financial costs of its production and a second time as it is used up or consumed. Douglas argues that the consumer should only be charged for its actual use as the real capital is consumed. If we multiply total financial prices as computed under standard cost accountancy conventions by the ratio that general rate of consumption bears (in financial terms) with the general rate of production (in financial terms), we can determine the true or just price of the goods and services. The difference between the financial price and the just price would be made up to the retailer so that he is not out of pocket. As an alternative, the consumer can be refunded the amount directly. The difference is the % discount, the National Discount or compensated price. Once the compensated price has been applied, then the rest of the gap, that which corresponds to the depreciation and maintenance charges, i.e., the costs of what is actually being consumed, can be filled with the National Dividend, the "wages of the machine". This dividend is the community's rightful share in the cultural inheritance: the vast accumulated pool of knowledge, technique, and real capital that previous generations have built up and that now makes modern production possible with progressively less human labour.

The same principle of accurately reflecting physical reality has a further important implication for employment policy. This constitutes yet another dimension within which the Douglas Social Credit monetary reform aims to accurately reflect reality and to thereby embody truth, justice, and teleological functionality. If we can produce everything that we need with only a portion of the available labour force actually working in paid employment, it makes no sense to insist on a policy of full employment. But if income is inextricably tied to work for most, full employment retains its necessity as a distributive instrument. It's not physically necessary, but it becomes financially and therefore artificially necessary. Filling the price-income gap, which is caused, in the main, by real capital, with a debt-free National Dividend, allows us to address this problem effectively also. Since everyone would receive the dividend and enjoy compensated prices, the Douglas Social Credit measures allow us to embrace a policy of "the minimum employment necessary" in lieu of a policy of full employment. Full employment, already not physically necessary, will cease to be financially necessary also. Economics is supposed to be about efficiency, getting the most output for the least amount of labour and resource consumption. The introduction of a National Dividend to make that physical efficiency financially possible and hence operationally real is yet another way in which we see that truth, justice, and teleological functionality are all built-in and tied together as part and parcel of the endogenous morality of the DSC monetary model.

The anticipated consequences of a Social Credit monetary reform would be the establishment of absolute economic security for every citizen in place of poverty and the threat of poverty, increasing leisure in place of servility (freedom from wage-slavery, debt-slavery, and useless or destructive employment), the elimination of society's chronic and unrepayable debt burden and the interest charges that accompany it, the decentralization of economic wealth and power to the individual, the elimination of economic waste and sabotage, continual reductions in prices instead of inflation, much lower taxes, much less government regulation and interference, economic co-operation instead of ruthless competition, social stability, the unfettering of the creative impulse and the flourishing of both folk culture and high culture, environmental protection, conservation, and repair, and mutually beneficial international trade providing a sound foundation for world peace.

These results are not external moral aspirations imposed on the system; they are the natural expression or fruit of a financial mechanism that has been designed to embody truth (accurate reflection of the real economy), realistic justice (continuous correspondence between useful productive capacity and the flow of real wealth on the one hand, and financial claims in the form of producer credit and consumer buying power on the other), and teleological functionality (operation in full service to the true purpose of economic association). ***

**References:**

[1] The common interest of the citizenry refers to the genuine interest of individual citizens in their capacity as the end-users of the economy, i.e., as consumers.

[2] C.H. Douglas, *Credit-Power and Democracy* (Melbourne: The Social Credit Press, 1933), vii.

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