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The Role of Money and the Price System

(Chapter I of Part II of *The Brief for the Prosecution* by C. H. Douglas—1944)

Certain premises are an essential starting-point for any useful suggestions in respect of the situation we have to face. The first of these is that a comprehension of a sound policy is by no means an identity with a comprehension of the means by which it may be achieved.

The first may be emotional or intuitional; but the second must be technical. There is, fortunately, no lack of the former, but there is immense confusion as to the latter. It is in this difference that one of the greatest difficulties of genuine reform resides. The complaints of the under-privileged have been wholly justified; their remedies have often been inspired by their deadliest enemies. In small matters, most people are quite aware that it is absurd to tell their shoemaker how to make shoes, but reasonable to complain that their shoes hurt. But, to take an important example, once the average voter has grasped the idea that there is something wrong with the money system, it is rarely that he does not attribute its defects to something he has been taught to call private enterprise, and agree that it should be perfected by the nationalisation of the banks. Since monetary reform is not merely vital, but is becoming topical, we may begin the examination of a new policy by a consideration of certain elementary aspects of money, and perhaps the simplest approach is by an inspection of its origins. We may observe that, amongst many reasons for this, is the fact that previous researches have established the fact that centralised sovereignty is at the root of the world's ills; and money is connected with economic sovereignty.

The word "pecuniary" derives from *pecus*, L. cattle, and probably the earliest form of currency, by which we mean something which is not wealth, but can be exchanged for wealth, was a leather disc given by a nomadic cattle *owner* to a buyer who did not at once wish to remove his purchase. The currency was issued by the *owner of the wealth*. To the extent that his ownership was absolute, economic sovereignty resided in him.

The next stage was the accompaniment of war and social insecurity. Wealth was deposited with goldsmiths for safe-keeping, and their receipt became currency. The issue of currency thus passed from the owner of wealth to the *custodian* of wealth. It is easy to prove that the goldsmith's receipt, which was often a fraudulent receipt, is the prototype of the bank note. Sovereignty largely passed to the goldsmith bankers, who "created the means of payment out of nothing." Finally currency and cheques on drawable deposits became simply bankers' credit, which was not owned by either the owner of real wealth, *per se*, or the producer of wealth. This is quite easy to prove by an inspection of any balance sheet, in which it will be found that "real" items and monetary balances are to be found on the same side, and both are *assets*. This would imply that someone, somewhere, actually owes to the possessor of money, a "real" asset corresponding to the money, and that this individual shows this property in his accounts as a *liability*. There is nothing in the facts or accounts of the business system to confirm this conclusion, but there is much to suggest that bankers have a concealed lien on nearly all property.

There is little difficulty in demonstrating that the money system will only work satisfactorily when sovereignty over his share of it is restored to the individual. It is unnecessary to develop this thesis here, since it has been fully explored in such books as *The Monopoly of Credit*. The point that is germane to our present enquiry is that there is no evidence to indicate that a nationalised banking and currency system would be anything but more oppressive than a partly decentralised system. Each approach to centralisation, and this approach has been rapid, has increased the tyranny of Finance, a tyranny which in itself is technical, but becomes political by reason of the immense advantages which accrue to its manipulators. There is no more effective claim to totalitarian power than the claim to the sole right to issue and withdraw (tax) money, and no mere manipulation of monetary technique which does not resolve and decide this question can do anything but complicate the problem.

It may be objected that the preceding outline ignores the metallic currency of the Royal Mints. So far from this being the case, the royal prerogative of striking coins is a relic and confirmation of the original theory of money. The King was, as the "Crown" in theory still is, the ultimate owner of everything within his sovereignty. Land and chattels were held ultimately from the King, *and the possession of his coinage was simply an acknowledgment of a grant by him.* Those well-intentioned people who feel that nationalisation of banking, with its attribute of credit-money creation is desirable, would do well to realise what it is they are proposing, which is the Divine Right of Kings, *tout court*, without a responsible King.

It is not necessary to infer from the preceding analysis that the establishment of a mint for every household is desirable. The money system is complementary to, and useless in the absence of, a price system. A corollary of this is that *the price of articles is the direct sum paid for them, together with the proportion of involuntary payments in the form of taxation, which accompany residence within the sovereignty.*

That is to say, every rise in price, whether direct, or in accompanying taxation, is a transfer of economic sovereignty from the individual to a centralised Sovereign. And the imposition of any condition of law on the free purchase of any article is a similar transfer.

It will be noticed that managed currency systems ostensibly intended to keep price levels constant, are incompatible with economic decentralisation. Managed currencies are controlled currencies and require a controller. The essential requirement of a free economy is radically different. In such an economy the proper function of money is to reflect facts, not policy. If it is a fact, as of course it is, that the "costs" of production are in reality, if not in unstable currency units, decreasing, then both individual prices, and consequently price levels ought to move to lower levels to reflect this process. The argument that falling prices mean loss to producers and stagnant trade is merely perverse. Compensated prices even of a crude and unscientific type are a day-to-day process at the present time, and deal with this situation simply, comprehensively and successfully.

Falling prices, by themselves, are the most perfect method of passing improvement of process on to consumers. They have the effect of increasing real and psychological credit, and raise the international exchange value of the unit, which loses any economic reality if "controlled" or "pegged." The method of "spending money into circulation to 'preserve' [*i.e.*, to raise] the price level" now being advocated under the title of a twentieth-century economic system, is simply a vicious form of managed inflation, ultimately accompanied of necessity by cumulative industrial waste. Assuming that it is understood by its sponsors, it is an attempt to perpetuate government by finance.

There is little doubt, however, that while a price system based on facts and consequently insusceptible to manipulation, if the facts on which it is based are published, is a primary essential, a national dividend is only less so. The attempt to capitalise this necessity by a levelling-down process masquerading as contributory social insurance has already been noticed. The justification for a non-contributory dividend both theoretical and practical has already been explored and demonstrated, and it is unnecessary to repeat the arguments at this stage

It may be observed that a satisfactory restoration of the money system to its essential principles is vital to the preservation of money systems of any description. Failure to achieve this objective would at no great distance in the future deprive mankind of what might be one of his most valuable mechanisms.

The idea that, in the engaging words of the letter attributed to the American Bankers' Association, "Chattel slavery will be abolished by the war. . . . We can achieve the same result by controlling the money" is even yet a fond aspiration in many quarters by no means negligible. But, in the face of wider knowledge of the nature and functions of money the attempt, although it will doubtless be made, will merely result in the final elimination of "bankers' money."

The Phantom Foe

DATED NOVEMBER 30, 1977 AND ADDRESSED TO ITS EDITOR THE FOLLOWING LETTER WAS NOT PUBLISHED BY *THE CANBERRA TIMES:*

Dear Sir,

In your issue of July 28, 1976, you published a letter from me under the heading "The missing millions" (the difference between production lost and wages lost because of a 24-hour industrial stoppage in Victoria).

I would like to remind your readers of two observations made in that letter:

(1) "Mr. Fraser's claim that the Whitlam Government was 'mismanaging' the economy was a prescription for his own destruction, probably before the next elections are due, because he is clearly not 'managing' any better than Whitlam & Co."

(2) "The core of the problem lies in the discrepancy between the incomes of the public and the value of production. The rectification of this problem lies in financing this discrepancy out of existence by accountancy procedures...."

In the light of developments in the intervening fifteen months, some elaboration of these points seems worthwhile.

1. Inflation is not an entity – an enemy – susceptible to "attack" or control. It is the mathematical consequence of the method of financing an industrial economy. Given the method, the progress can be calculated.

Inflation is not "caused" by printing paper money. In Australia in 1966 notes and coins in the hands of the public were $783 million; in 1975 $2,356 million representing a rate of increase of 13% p.a. or a total of 200% increase. The total volume of money in the same period increased from $10,938 million to $28,814 million, an increase of 11.4% p.a., or 163.4% total increase. The ratio of notes and coins to total volume of money was 0.08 in 1966, and 0.07 in 1975; notes and coins were 7% of the money supply in 1966 and 8.8% in 1975. Thus over 90% of "money" is simply accountancy.

Notes and coins are only the small change of financial transactions, and when prices or turn-over rise need to be increased in volume to enable the volume of turn-over involving notes and coins to be maintained. Thus circulating notes and coins are increased in the hands of the public to accommodate Christmas shopping, and retired when the rush is over.

If there were no expansion of the money supply, the charging of interest on loans would transfer the total money supply from borrowers to lenders at a rate proportional to the rate of interest, and the money supply would be immobilised. To avoid this the total money supply must be, and is, continuously expanded.

There are four mechanisms of expansion:

(1) The export of goods and services (including tourism) in excess of the import of goods and services, the difference being made good by the 'import' of foreign exchange, which is converted to local currency through the Bills of Exchange mechanism (a function of the International Banking system). It should be noted that this extra local currency is spent on local production. For some odd reason this unfavourable exchange of *goods* is called a favourable balance of trade. Why is it necessary to import money to buy our own production?

(2) External borrowing, similarly converted to local currenc (using the term currency in the wider sense to include bank deposits). This borrowing, however, attracts interest, which in the last resort can only be paid by a further excess of exports; and if

not so paid the debt compounds. Also interest paid reduces the money supply, coming out of taxation. External borrowing also leads to foreign influence over domestic policy (for example, current International Monetary Fund supervision over British internal, and, no doubt, external policies).

(3) Foreign investment, leading to foreign ownership of fixed (capital) assets. Local materials and services utilised in construction etc. are paid for as in (1) above, thus expanding the volume of money.

(4) Excess of bank credit facilities over repayments to banks. This is by far the major source of the expansion of the money supply. Even a slowing of the rate of this expansion ("tight money") promotes a mini-depression in the economy. (The mechanism of this retardation is the raising of the amount of Statutory Deposits which the Trading Banks are required to 'lodge' with the Reserve Bank. Of course this is only an accountancy procedure, and is the chief mechanism for "managing the economy").

From 1972 – 1975 Major Trading Banks advances increased by about 87.5%; Commonwealth Development Bank by 14% 1973–5; Reserve Bank 105%. The Reserve Bank is regarded as the "regulator" of the money supply.

2. The purchasing-power of the community is for the most part generated by the payment of wages, salaries and dividends by industry. (It should be noted that primary production does not generate incomes. It *obtains* its income by the exchange of its products for the incomes generated by industry, which accounts for the variability of its income). Payments made by industry as above are redistributed amongst the whole community by taxation and payment for services – health, legal, accountancy, transport, advertising, etc.

Industry's payments to *individuals* form both the income of the community, and one only of the *Costs* of manufacture. These payments to individuals may be regarded as a capital fund with a periodic circulation (about twenty cycles per year), being recovered through the sale of consumers' goods. This capital may properly be regarded as a short-term and repeated loan to the community, attracting "interest" in the form of profit.

But industry has other costs – fuel and materials consumed, and depreciation or obsolescence of plant and buildings. These costs are *allocated* costs – that is, they are not distributed as income to individuals, but *are* included in the price-structure of goods *for sale to the public.* They represent the recovery of money spent an indefinite number of years past on the construction of industry buildings and plant, forming at that time wages and salaries, but spent at that time (all except a very small proportion saved) on individual consumer's purchases.

Wages and salaries paid in manufacturing industry in 1973-74 were $7,118 million. Judging by previous annual increases, they would by now amount to about $13,000 million currently. What in the statistical tables up to 1969 were listed as "materials used and fuel" are now subsumed under "Purchases, transfers, and selected expenses" which means payments made other than to individuals (wages and salaries) were in 1973-74 $18,980, and would currently be of the order of $33,000, million. To this must be added depreciation charges, which I estimate (from an analysis of selected representative Company financial statements covering many years) to be currently of the order of $10,500 million. (In a selected list of Companies allowance for depreciation has increased by 1,782% since 1951). Apart from the effects of inflation, all fresh investment in expansion adds to the total cost of depreciation, while the money spent on this expansion is expended on current individual consumption, and consequently will not be available to meet the added depreciation charges when they come on-flow.

Thus, the total cost, and minimum price of factory production in this financial year would be of the order of $56,000 million, of which wages and salaries represent 23%, leaving a gap of 77% between purchasing-power and minimum costs. Prices greater than costs represent profits, some of which are distributed as dividends to individuals, and some added to reserves. But additions to reserves are not current purchasing-power, and again compound the problem.

This gap between purchasing-power in the hands of the community, and the collective prices of goods available to those individuals, was the direct cause of the 1929 Great Depression. That depression was terminated by preparation for war, and then by war itself. In the U.S.A., which did not suffer the devastation of war, there was unprecedented prosperity. This was sustained in the post-war years by massive "aid" to other countries – really a massive export spree sustaining full employment at home. But the gap gradually manifested itself again, and the U.S. now faces a growing and probably catastrophic crisis.

Countries devastated by war faced enormous reconstruction, again offering full employment and high economic activity. Australia embarked on rapid industrialisation, a large programme of reconstruction of buildings, and the large-scale Snowy Mountains hydro-electric and irrigation project. In the years 1951 – 1958 depreciation charges (a measure of industrial expansion) increased by an estimated 270%. (In the years 1958 – 1977 the estimated increase was about 400% – a slower rate of increase, allowing for the longer period – which confirms the expectation that industrial expansion must approach saturation. Were it otherwise, the land would become obliterated by factories. An annual growth-rate of 5% – which is being advocated – would double industrial expansion every 14 years. What happens when "enough is enough"?).

A grasp of all this should convince serious students of our problems that only an event of the magnitude of another world war can bring about economic "recovery" on orthodox economic lines. The current electoral debate makes about as much sense as an argument as to whether a house on fire can best be controlled with buckets of water or buckets of sand. (Unless the house happens to be over-insured).

This is the reason why there is a demand for Government deficit finance "to restore full employment". This demand is of course predicated on the assumption (which I believe to be well-founded) that agricultural and industrial resources within this country are adequate not only to meet anticipated consumer demand, but to boost exports as well, thus helping to bridge the price-incomes gap.

But deficit finance means "borrowing" from the banking system by Governments; in Australia, primarily from the Reserve Bank, which in turn activates "lending" by Trading Banks. But deficit finance while temporarily relieving unemployment, compounds the fundamental problem by increasing debt, on which interest charges are equivalent to depreciation charges in effect, being recovered out of consumer income through taxation, but with a debt to be repaid: actually an impossibility under orthodox accounting.

The demand for full employment rather than increased purchasing-power for existing incomes (which is technically easily possible) is fundamentally a demand for continued wage-slavery, and is common to the leadership of all Parties, and if adhered to will bring this civilisation to destruction, the early signs of which are already apparent. The situation in Australia is the same as in all Western countries, and Japan – rising prices and rising unemployment. No remedies have been proposed here that have not already been tried and seen to fail in other countries. In the EEC

(Common Market) unemployment has increased by 90% since 1974

How does the demand for full employment equate with the demand for shorter working hours and higher empayment (which is the real demand that the cry for full employment conceals)? The latter expresses a desire for the leisure and the means "to do ones own thing". The former views Society as a "work-force" like an Army, to be directed to objectives envisioned by the Leaders. A multi-million Government building to house bureaucrats may give joy to the Minister in charge, but it hardly enhances the quality of life for the majority of citizens; and it increases the maintenance charges which must be found by additional taxation.

All this is not to say that there is no remedy. There is; but it is unacceptable to governments of any complexion. They are all afraid of losing the *power* of government.

But if we are to avoid the alternative disasters of anarchy or totalitarian government, it will have to be recognised by those with the power to effect quite fundamental reform that unemployment is the natural, and intended, consequence of labour-saving technology, which is progressing all the time; and unless unlimited production, far in excess of human requirements is the ultimate objective, freedom from the *necessity* of paid employment should be recognised as the major accomplishment of human ingenuity.

The simplest first step I can see in that direction is progressively earlier retirement *on a fully adequate income.* There is enough food and materials in this country to feed, clothe and house the total population; and to see the unemployed penalised in order to maintain the sanctity of the archaic doctrine "If a man work not, neither shall he eat", which is a prescription for slavery, spells doom for us all.

The ultimate remedy is for dividends for all to replace wage-slavery.

Yours faithfully,

RED HILL, A.C.T. BRYAN W. MONAHAN.

Third World War?

U.S.–Soviet Military Posture

London, December 7 — John W.R. Taylor, editor of the authoritative military volume *Jane's All the World's Aircraft*, says that President Carter's decision to scrap the B-1 strategic bomber may have sown "the seeds of defeat" for the Free World. In a preface to the new 900-page edition of *Jane's*, Taylor says that Soviet leaders "must be surprised beyond belief that the U.S. President has disposed of the B-1 without asking any Soviet concession in return. If our planet is subjected one day to the unimaginable horrors of a third world war, 1977 might be recorded as the year in which the seeds of defeat for the Western powers were sown. The fragile coexistence, maintained for a generation by balanced East-West military power, is being allowed to slip, inch-by-inch, from our grasp." He ridicules Carter's reliance on the Cruise missile, saying that only Adolf Hitler "previously put massive faith in such missiles," which travel slower than the speed of sound, are incapable of jamming enemy defense radar, and are intended primarily for use against undefended targets.

Brussels, December 7 — U.S. Secretary of Defense Harold Brown confirms that the United States plans to restrict deployment of Cruise missiles in order to obtain a new strategic arms limitation agreement with the Soviet Union. Talking with newsmen after a meeting of NATO Defense Ministers, Brown says that land- and sea-based Cruise missiles will be restricted to a 375-mile range, and air-launched missiles, which will be carried only by U.S heavy bombers, will be restricted to a 1,500-mile range. He says that the three-year curb on deployment will give the NATO allies a chance to look "very carefully" at the advantages and limitations of Cruise missiles — and also at what the Soviet Union has been doing in the missile field during that period.

—*The Review of the News*, Dec. 21, 1977.

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For the past several years there have been intimations, and even warnings, to the effect that the USSR was gaining military and strategic superiority over "The West". But we have noted that such assessments have often come, rather dispassionately, from 'Authorities' which have links with the Royal Institute of International Affairs (Britain) and the Council on Foreign Relations (USA). It is quite reasonable to suspect, and in fact we do suspect, that the underlying idea is to condition us to surrender rather than face inevitable defeat in a catastrophically destructive war.

However, judging by the carnage already wreaked by the progress of the World Revolution under the auspices of a New Order, surrender will not avoid a catastrophic destruction of the painfully evolved Western Civilisation — a civilisation which eighty years ago proffered the highest promise in mankind's history.

In 1924 the late C.H. Douglas published his book entitled *Social Credit,* in our opinion the profoundest sociological work ever conceived. At that time he had hopes that the stage might "be set for the greatest victory which the human individual has, within history, achieved over the forces which beset him to his fall".

But the magnitude and the determination of "the forces" opposed to such a victory became apparent with the promotion of the Great Depression, and the unleashing of the Second World War, so that some thirty years after the publication of *Social Credit* Douglas wrote: "We are more than ever, if possible, convinced that a falling price level, without loss to producers and entrepreneurs, is the very core of social and industrial pacification. And we are equally convinced by 30 years' specialised experience and observation that the coterie which is at the core of world unrest knows it too, and is determined that at whatever cost, extending to the complete destruction of civilisation, and even of the terrestial globe, it will not have that solution, which would automatically wrest power from it as nothing else would".

Despite the evidence of the revolutionary destruction of Western Civilisation, beginning with the dismantling of the British Empire, and followed by carnage in India and the 'Third World'; with war in preparation against Rhodesia and South Africa; and with the evident collusion between the power-centres in New York, Washington and Moscow — still the citizens of the remaining so-called democracies seem determined to believe that "it can't happen here, or to me". But perhaps the time has come to ask: "Can our *children* be saved from the horror in prospect?"

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